3RD ANNUAL CABRI SEMINAR
28-30 November, Addis Ababa, Ethiopia

CABRI

COLLABORATIVE AFRICA
BUDGET REFORM INITIATIVE

2006

BRIDGING THE GAP

from policies to budget

This publication was compiled by the CABRI Secretariat. It contains research papers presented at the 3rd Annual CABRI Seminar in November 2006, and which have subsequently been edited.

For information on the Collaborative Africa Budget Reform Initiative, or to obtain copies of this publication, please contact:

CABRI Secretariat
Budget Office
National Treasury
Private Bag X115
Pretoria 0001
South Africa
Email: info@cabri-sbo.org
www.africa-sbo.org

Edited by Alta Fölscher
Copy-editing by Greg Rosenberg
Design and lay-out by Compress

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Publication of this report was financed by the German Technical Cooperation (GTZ). GTZ does not necessarily share the views expressed in this material. Responsibility for its content rests entirely with the authors.

Contents

Tables and figures

Tables

Figures

Acronyms

AIDS	Acquired immune deficiency syndrome
ASGI-SA	Accelerated and Shared Growth Initiative for South Africa
CABRI	Collaborative Africa Budget Reform Initiative
CFAA	Country Financial Accountability Assessment
CFMP	Medium-term fiscal scenario
COFOG	Classification of the functions of government
CSO	Civil society organisation
DEPAC	Development Partnership Committee
DP	Development partner
e-SISTAFE	Electronic State Financial Administration System
ETSIP	Education and Training Strategic Investment Plan
FMAS	Financial Management Accounting System
GDP	Gross domestic product
GEAR	Growth, Employment and Redistribution policy
GFS	Government finance statistics
HIPC	Highly Indebted Poor Country
HIV	Human immunodeficiency virus
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
MDA	Ministry, department and agency
MDG	Millennium Development Goal
MoFNP	Ministry of Finance and National Planning
MTEC	Medium Term Technical Committee
MTEF	Medium-term expenditure framework
MTP	Medium-term expenditure plans
MTSF	Medium-term strategic framework
NDP	National Development Plan
NGO	Non-governmental organisation
NPC	National Planning Commission
NSGRP	National Strategy for Growth and Reduction of Poverty
PAF	Performance Assessment Framework
PARPA	Action Plan to Reduce Absolute Poverty
PEAP	Poverty Eradication Action Plan
PEFA	Public Expenditure and Financial Accountability

PEMFA	Public Expenditure Management and Financial Accountability
PEMP	Performance and Effectiveness Management Programme
PER	Public expenditure review
PES	Economic and social plan
PETS	Public expenditure tracking surveys
PFM	Public financial management
PQG	Five-year plan
PRS	Poverty reduction strategy
PRSP	Poverty Reduction Strategy Paper
PTT	Performance tracking table
RUFP	Revolutionary United Front Party
SBAS	Strategic Budget Allocation System
SBO	Senior budget official
SMART	Specific, measurable, attributable, realistic and time-bound

Introduction and background

The Collaborative Africa Budget Reform Initiative (CABRI) held its 3rd Annual Seminar in Addis Ababa, Ethiopia, from 28–30 November 2006. Representatives from 23 countries attended, most of them senior budget officials from treasuries, finance or planning ministries, along with representatives of various regional and international organisations. CABRI is a self-organising learning network of senior budget officials in Africa and has as a core objective the improvement of public expenditure effectiveness through improved public financial management systems. It aims to achieve this through peer exchange and the development of common resources that speak to African priorities. The Annual Seminars are the highlight of the network's annual calendar.

The founding gathering of senior African budget officials took place in December 2004, hosted by the South African National Treasury. The seminar covered four key themes: budget credibility, multiyear budgeting, improving the quality of expenditure, and reform design and implementation. The 2nd Annual Seminar, entitled 'Managing Complexity: From Fragmentation to Co-ordination', was hosted by the Mozambican Ministry of Finance in December 2005. The meeting explored the complexities of budgeting, such as the co-ordination between recurrent and development spending, managing off-budget revenues and expenditures, the impact of debt-relief and aid management trends, and finding the most effective way of funding functions delivered by a lower level of government.

The theme of the 3rd seminar was ‘Bridging the gap: from policies to budgets’. The meeting explored in depth the disconnection that exists between planning and budgeting systems in many African countries. Ensuring appropriate linkage of budgets to policies is a key challenge for all countries, especially those seeking to reform and strengthen their public expenditure management systems. This book reflects discussions at the 3rd seminar, outlining good practice, lessons learnt and the progress made in a number of countries.

Foreword

'*To govern is to choose*'[1] – Sufian Ahmed

African governments are seeing the process of building sound institutions as a key priority. Sound public finance systems, budget processes that serve our welfare goals, and accounting systems that have integrity and respect are essential institutions in the development of democracy. These solid institutions are the foundation upon which nations can develop and prosper.

The Collaborative African Budget Reform Initiative (CABRI) is the first network of budget officials run by African countries solely for African governments. Just as the launch of the African Union a few years ago was a powerful symbol of a new era in the development of our continent, so too is CABRI a symbol of a continent that is increasingly focused on building prosperous, open societies.

This year's seminar is structured around the theme 'Bridging the gap – from policies to budgets'.

The policy-making process is complex. The process through which governments determine their welfare goals, the methods with which they seek to achieve those goals, the programmes that give effect to those policies, the evaluation of those policies and the process of constant improvement and reform are some of the most important and difficult functions of government. Ensuring that resources are allocated in line with those policies, in a manner that supports the task of meeting those goals, adds a further layer of complexity to the process.

Africa finds itself in the midst of an economic upswing that has lasted four years. Economic growth on the continent in 2005 was 5.4 per cent. This year and next year, Africa's growth is likely to exceed the global average. Much of this growth is found in commodity sectors and in particular the oil sector. However, most countries in Africa, even net oil importers, are growing faster than at any point in the past decade. Rising commodity prices combined with sound macroeconomic performance has provided a framework for strong growth in most African countries.

Strong economic growth only translates into reduced poverty and higher employment when the structure of the economy allows for more investment. In addition, the state must be able to extract a fair share of the rising profits. The ability of governments to use these resources wisely will determine how sustainable this economic boom is and how widespread the benefits are shared. Improved public finances and budgeting provides us with the framework to use the additional resources for the good of our people.

Let us unpack the theme of this seminar: bridging the gap between policies and budgets. What concerns governments are the outcomes, the ultimate impact of our programmes and policies. We care about children getting a good education, about people being able to put food on the table, about reducing the burden of disease and hunger. In most instances, these things can be measured objectively. And where they cannot be measured accurately, the population as a whole is the ultimate judge of the impact of what we do. It is often easy to draft a list of things that we as government, any government, seek to achieve. These issues are often uncontroversial. It is easy to get broad agreement on what the key priorities are. Poverty reduction, improved education, better nutrition and longer life expectancy are all goals that developing countries strive for. We all agree that better schooling and clean water, for example, are essential to increasing life expectancy and reducing poverty.

The Millennium Development Goals provide definition, with clear objectives and targets as well as tight time frames for the achievement of these goals. Most African countries have committed themselves to meeting these goals. The nature of these goals is that they constitute a set of high-level outcomes which can be measured.

While support for these goals often garners widespread support, even among opposing political parties, that's often where the agreements stop. It is almost impossible to find two people, let alone millions in a country who agree on which approach is best to improve education. Some people argue for more primary school teachers, others argue for the abolishment of school fees. Some people call for more schools to be built, others call for more textbooks to be delivered. Some countries prefer smaller schools close to where people live, others prefer larger schools which sometimes require people to walk long distances or take buses. The 'how' part presents many possibilities.

However, more often, governments advocate an approach based on their instinct or belief. You also get those who just argue for more, more of everything, more now, this minute. Not all governments are easily able to resist this populist tendency. Evidence-based policy-making requires an examination of evidence as part of the policy-making process, but this is not always easy since different pieces of research may suggest different policies. There are vigorous debates about what approaches would reduce poverty in the long term. How do we balance the need to invest in schools with the need to build roads and rail lines to take our exports to markets to earn revenue, to invest in schools? The policy-making process is complex and requires choices.

'To govern is to choose. To appear to be unable to choose is to appear to be unable to govern.' These words by Nigel Lawson, Chancellor of the Exchequer in the United Kingdom from 1983 to 1985, accurately capture the challenges we face, especially at the early stages of the policy-making process.

Once we have decided on a policy or an approach on an issue, we then face the dichotomy of what exists at present and what we seek to do. Let's use a simple, hypothetical example to illustrate this point. Let's assume that it is our intention to reduce the number of big hospitals in cities and increase the number of smaller clinics in communities. How do we reduce the pressure on the hospitals without first building the clinics? Where do we get the money from to build the clinics if our money is tied up in running the expensive hospitals? Even if we can build all the clinics first, how do we get doctors to move to the clinics? Doctors like working in big hospitals as opposed to clinics. Even if we had money to hire additional personnel to staff the clinics, how would we avoid all the good doctors and nurses simply migrating to the hospitals because conditions are better? How do we reduce the costs of running the expensive hospitals without losing staff? If we reduce the number of staff, would we not lose the best quality people we have? This simple hypothetical example reinforces the dilemma we face in implementing a policy. The allocation of resources – either explicitly in a budget document or the de facto situation in practice – actually determines the policy, not just what is said on paper.

Inertia or rigidity is a major problem in changing a policy or programme. Even if the budget reflects a particular pattern of spending, due to built-in rigidities, it may take years to actually implement the budget. These rigidities are often found in the management of personnel spending or in capital programmes that take a number of years to complete. If the budget process does not take this inertia into account, the published budget documentation could bear little resemblance to the reality on the ground. If planners and policy-makers do not take account of this inertia, they will be accused of planning in a vacuum.

Often policies and programmes are delivered through sub-national governments – states, regions or local governments. Sometimes these levels of government have the required revenue to implement the programme, but often the centre has to provide the resources. In cases where the local government has the resources, what obligation is on them to follow the centre's policies? Even when the centre provides the resources, what discretion do lower levels of government have either in the allocation of resources or in the detail of implementing the programme? How does the resource flow match the policy? Intergovernmental fiscal relations add a layer of complexity to the challenge of aligning budgets with policies.

Once policies and programmes are developed, how do we cost these policies? Do we have sufficient information to cost our programmes? Do we provide costs for what we would like to see, or what is likely to happen in reality? How realistic can we be? These technical questions may come at the tail end of the policy process, but they are critical in the proper alignment between policies and budgets.

The last challenge I wish to deal with in our endeavour to close the gap between policies and budgets is the role of the donor community and donor aid in the process. For many of us, our budgets are not entirely of our own making. Donors influence our budget policy processes and budget decisions in ways that do not always coincide with what we would have done had we had a free choice. While there may be political reasons for this, or sound fiduciary reasons, the net result can be a weakening of the budget process and a weakening of democratic accountability.

A budget process must move resources to where the political priorities are and political priorities must be defined by democratic processes. If democracy is to work, then resource allocations must reflect the intention of the electorate. Yes, the allocation of resources and the design of policies must take the best evidence and research into account. However, policy-making and therefore budgeting is an inherently political activity. To pretend that these are merely technical exercises may prove correct in the short term, but in the long term, allows for unelected technocrats to determine policies and priorities. When this happens, people are likely to lose faith in democracy as a system.

There is a clear and important role for civil servants in the policy process. But democracy works when governments are held accountable for their choices. These choices must be set out explicitly and clearly. When the people actually making the decisions cannot be held accountable, then we are all losers in the long run.

Our starting point is that there is a gap between policies and budgets, and that we are all facing deep challenges in bridging this gap. The theme for this CABRI seminar goes to the heart of the interface between the technical and the political. This is a difficult area, fraught with complexities and sensitivities.

Endnotes to Foreword

1 This foreword is an edited version of the opening address to CABRI's 3rd Annual Seminar delivered by Ethiopian Minister of Finance and Economic Development Sufian Ahmed.

1

Setting the policy agenda

1.1 Introduction

To ensure an effective link between policies and public expenditure, the first priority is to establish a clear, respected and relevant policy agenda.

Assessing spending programmes against a diverse range of measures – national development plans, poverty-reduction strategies, vision documents and political party manifestos, for example – is often an impossible task for budget officials. Such various agendas often have competing requirements, and there is rarely clarity on how they should be ranked. Lack of a clear policy agenda causes a similar dilemma for line agencies.

Another scenario familiar to budget officials is trying to align decisions with agenda-setting documents that are based on outdated assumptions.

The absence of clear medium- to long-term objectives and a well-understood set of priorities can impose potentially large costs on any country. The loss of focus and complementarity of policies and spending programmes across sectors is exacerbated by the space created for the introduction of policies that serve narrow interests inside and outside of government.

There is a real danger of such a lack of clarity in CABRI member countries. Multiple local and development partner stakeholders, imperfect political party and electoral systems, and weak accountability are some of the factors that contribute to a blurring of policy agendas and a loss of legitimacy.

The 3rd Annual CABRI Seminar acknowledged the importance of clear policy agendas for the effective use of resources over the medium term. The first seminar session took the form of a panel discussion between key stakeholders in setting policy agendas: the executive, the legislature, development partners and civil society.

The paper in this chapter, by CABRI researcher Alta Fölscher, picks up on the seminar discussion and examines national systems for setting policy agendas. It sets the tone for subsequent chapters by asking questions about the interface between the political and the technical, and the formal and informal, at this key point in the development of a government's programme of action. It proceeds from the standpoint that in practice, neither policy-making nor budgeting are linear, rational processes. The author asks which institutional arrangements facilitate the creation of clear, defined policy spaces, so that the activities and decisions of state agencies are responsive to citizens' needs.

1.2 Contracting government: Poverty reduction strategies as enabling democratic institutions in the policy-budget process

Alta Fölscher

1.2.1 Introduction

A nation's policy agenda represents a contract between citizens and their elected leaders. Reforms to policy and budget systems are rooted in this understanding of the state-citizen relationship.

The models of democratic governance underpinning modern public finance management are built on a principal-agent theory of the state, in which citizens are the principals, and elected leaders are the agents who act on their behalf and are accountable to the citizens for their actions. The source of policies is the will of the electorate. Elected governments have a mandate to put in place policies that have been 'pre-approved' in terms of the winning party or coalition's campaign platform.

Should leaders deviate from the policy agenda or fail to achieve its goals, citizens sanction them by voting them out of power and selecting new agents.

This primary principal-agent relationship unfolds into a series of lower-order arrangements between structures and individuals. Civil service heads of departments are accountable to their political masters, who are the principals. Parliament is the principal of the public purse (and at the same time the agent of citizens) and the executive the agent who spends money through the budget, which is the contract governing the arrangement.

Raising, allocating and using public funds runs through these arrangements. Citizens pay taxes so that their agents can provide the goods and services they prefer. Members of the legislature – in addition to their function of establishing, repealing or amending the rules of the polity – approve the executive's plans for using citizens' taxes. The finance ministry acts as the agent of the legislature, and disburses money to spending agencies to undertake the activities for which they have been contracted, and so on.

But both policy agendas and budgets are incomplete and inevitably plagued with agency problems. How does the legislature know that the executive is using the money as contracted? How do citizens know that they are getting the services they paid for and value for their money?

Inevitably, a government has better information about whether it is delivering, no matter how poor the information may be. Given the conditions of uncertainty and risk under which these contracts operate, how can agents make the necessary distinction between poor returns that are due to external factors and those that result from poor performance?

It has long been recognised that contracts cannot be specified for all eventualities. Policy agendas and budgets are examples of contracts that are particularly open: it is simply not possible to cover all contingencies that may affect the ability of a government to deliver on its policy promises. What if commodity prices collapse and revenue underperforms? What if there is a natural disaster and available funds are diverted from policy priorities to address the emergency? What if the neighbouring country invades? The list is endless.

Modern public policy management is constructed to overcome these problems. The new approaches seek to align the interests of the agent and the principal better so that, no matter what the contingencies are, principals can have some surety that agents will act in their interest, and agents have less reason to exploit information asymmetries. For example, whereas previously finance ministries controlled spending from allocation through disbursement to use, in a modern system they give spending agencies more discretion in exchange for holding them accountable for the results.

The use of performance information in budgeting (and public employment) is based on the notion that contracts should stipulate what deliverables are and specify how both the agent and the principal will know when successful delivery has taken place using indicators and targets. Reformers spend some time thinking about incentives and including rewards for good behaviour (carrots) and sanctions for poor behaviour (sticks). Part of this thinking revolves around transparency and accountability, without which principals are dependent on the goodwill of agents to stick to the rules of the game.

It did not take long for these shifts in good practice to make their way into the governance arrangements of developing countries. However, the contexts are very different between developing countries and developed ones, where these approaches originated. A central argument of this paper is that the ways in which instruments to set policy agendas have evolved, particularly since the late 1990s, are taking into account these contexts from a principal-agent perspective.

The paper develops this argument by first examining the particular demands put on governance structures in developing countries. It looks at how agenda-setting arrangements answer these demands. The final section explores briefly why this could bode well for a gradual strengthening of the budget-policy link.

The paper does not address the various practical problems with implementation of poverty-reduction strategies through medium-term expenditure frameworks. These issues are covered in the subsequent chapters of this volume.

1.2.2 Challenges of governance in developing countries

Principal-agent theories make certain assumptions about the reasons why citizens will change their vote. The supposition is that citizens make decisions based on policy preferences. However, such assumptions do not necessarily hold in countries that have relatively short democratic histories. A key question is whether political party institutions are sufficiently mature.

Goetz and Gaventa (2001) identify the nature and the organisation of the political system as a factor determining the degree and quality of citizens' participation in public processes. An interest group, for example, may be equipped with all the preconditions for effective engagement (social organisation, relationships with powerful actors, sympathy in the broad population and a crisis to focus public concern), but the political environment may frustrate success if 'the group does not contribute to prevailing political agendas or patronage systems'. Informal political systems (as opposed to the formal constitutional structure of politics and the state) also affect the incentive structure for citizen engagement: if citizens perceive that participation is likely to be ineffective given the nature of power and the distribution of power in society, they are unlikely to engage (Goetz & Gaventa 2001: 11). Fox (2000) provides similar analysis of the power of the political system to undermine public accountability.

One aspect of this is the development of political party systems. A functional multi-party system has been identified as an important contributing factor to a vibrant, engaged citizenship and to good governance. However, in many developing countries, political party institutions remain weak. When parties are still based on 'personalism and clientilism', lack policy platforms and rely instead on the politics of identity (ibid: 11), citizens are less likely to gain an effective voice. Perceptions of the state and leaders as natural authority figures, rather than the agents of citizens who have rights and are the true locus of power, also influence how principal-agent relationships play out in developing countries; in turn this affects how real policy agendas are set.

Kapstein and Converse (2006) make a similar point, this time about the nature of economic policy in young democracies. 'Constitutional political economies' – a combination of a country's electoral systems (who gets to vote for which offices), its political parties (how many, which interests are aggregated and how well are they organised) its institutions (what type) and its age (how long has it been a democracy) – are important when it comes to delivery on economic policies. The 'variance of democracies along these four attributes may be of great significance for economic outcomes' (Kapstein & Converse 2006: 4).

Our concern here, of setting policy agendas in such a way that policies and budgets are well-linked, sits at the interface of these two factors: how well citizens participate determines whether governments are held accountable to policy agendas; and the type of democracy (as much as the fact of being a democracy) influences economic policy-making. How politics are organised and the degree to which policies are contestable are key variables that apply to both factors.

Therefore, a first challenge for the principal-agent model of governance in developing countries is whether politics work well enough. Models of agenda-setting that rely solely on competitive elections for choosing political leaders who are accountable to voters, and rely on the competition being based on policy contestability, may result in poor outcomes. The development of strong democratic political institutions could be seen as a precondition for the application of such models. Frustratingly for reformers, it is also these models that are the most likely to build such institutions.

A second related challenge concerns the operation of narrow interest lobbies. Olson (1965) emphasised how narrow interest groups can capture governmental action to their benefit. His initial analysis was mainly in the context of developed countries, but in 2000 he extended this analysis to developing countries (Olson 2000). He used his understanding of how interest groups use collective action and political influence to analyse how the privatisation of state assets in Russia, which could have been beneficial for the whole of society, was obstructed by the members of a small group who are now managers and owners of previously socialist enterprises.

Olson's basic proposition is that public policy in democracies is shaped by special interest groups who maximise their personal gain at the expense of the welfare of the society, because individual voters are not able to organise effectively. In young democracies, where poverty and patrimonial power structures undermine the ability of voters to participate effectively in public processes, the risk of such capture is even greater.

The critical lack of information systems is clearly a third challenge for principal-agent relationships between citizens and government. Natural information asymmetry intensifies when systems are not in place that routinely produce clear information about how a government is sticking to its contract. How many CABRI member countries had reliable information on actual spending a decade or so ago? And even if they had it, how many countries actually published such information? How many governments could and did provide regular information to citizens on the outcomes of state actions? Citizens could perceive such actions based on their own experiences, but since they had little knowledge of government's potential capacity to address problems, they could not come to any good conclusions on how it was faring.

A final challenge – and one that is perhaps obvious, but the most important for the purposes of this paper – is that in developing democracies, the principal-agent relationship between a government and the citizens is not the only legitimate relationship that determines the policy agenda. The principal-agent relationship between development partners and governments also has a legitimate claim on the setting of agendas. In fact, development partners have been much quicker than citizens or legislatures to use performance information and well-developed, explicit contracts to overcome problems with governments that receive aid. The transaction costs associated with providing the information demanded are now widely accepted to crowd out citizens claims to better information. In practice, especially since the supposed primary relationship was still weak, executive agencies have ended up more accountable to development partners than to their own legislatures and citizens.

1.2.3 Setting policy agendas

Policy agendas are set by the executive. The development and review of a framework within which policies can be made and trade-offs between policy claims on resources can be decided is a key responsibility of government.

Ethiopia's poverty-reduction and growth plan

During the 3rd Annual CABRI Seminar, Ethiopian State Minister of Economy and Planning Mr HE Mekonnen Manyazewal presented on how his government executes its responsibility to set the policy agenda. Many CABRI member country governments set policy agendas in the same way: through the development of national poverty-reduction strategies (or increasingly, in the second-generation poverty-reduction and growth strategies).

In Ethiopia, the development of a national vision and goals is the starting point for the compilation of a five-year poverty-eradication and growth plan that sets the national policy agenda. Consequently, the direct aim of the national policy agenda is to promote broad-based growth through the reduction of poverty.

To translate this broad aim into more specific policy agenda items, Ethiopia conducts an analysis of the relevant social and economic factors, followed by work on sector strategies and policies consistent with the national strategy. The sector strategies and policies are translated into sector programmes that define priorities, expected achievements and performance targets. These programmes are costed.

The resulting strategic plan includes an assessment of the government's framework fiscal policy strategies and likely resources, given projected local and international economic trends over the period of the plan. A monitoring and evaluation framework is developed that is rooted in the expected achievements of the strategies towards the realisation of the national vision and goals. The monitoring framework is sector-specific and tracks implementation through inputs, output and outcome indicators. Once all these elements have been compiled into a coherent document, the plan is formally adopted and becomes government's main policy agenda.

Implementation of the plan in Ethiopia is deliberate: lower-order policy systems such as sector strategic plans and annual processes for allocating resources use the plan as a reference point. The plan is also the road map for agreement between the government and donors on the use of development assistance. An annual monitoring exercise checks on achievements at sector level, followed by a national monitoring review. Annual household expenditure reviews help to track closely whether the plan is succeeding in reducing poverty.

Ethiopia has learnt through doing, and has adapted systems and processes to ensure that the national strategy and priorities are respected throughout the system. Government programming exercises within the framework of the plan linked resources to priorities.

In the context of principal-agent relationships, the question arises how legislatures and citizens are involved in this exercise. Two other presentations at the seminar illustrate how a government's effort to establish a policy agenda can involve (or not involve) the elected representatives of the people and civil society organisations (CSOs).

The Ugandan model for agenda-setting processes[1]

James Mwandha, a former Ugandan MP, conceded that in Uganda the primary force for strategic policy formulation is the Cabinet. The process emphasises stakeholder participation through a series of consultative meetings, conferences, seminars and workshops.

Indeed, as touched on in Mr Mwandha's presentation, Uganda can be seen as the pioneer of poverty-reduction strategies as national agenda-setting instruments. Its history provides vivid illustrations of the principles driving these approaches, and the key problems associated with them, which are now common to many CABRI member countries.

Uganda's 1997 Poverty Eradication Action Plan (PEAP) was developed by a task force that included representation from government, academia and civil society. The plan identified priority programme areas to be primary health care, rural feeder roads, primary education, provision of safe water and modernisation of agriculture. Key to the plan was that the eradication of poverty required a multi-sector approach.

By the end of the 1990s it had become clear that there were weaknesses in the first PEAP. Difficulties with setting priorities at the local implementation level showed that it was necessary to refocus the plan so that its linkage to funding and government activities could become more clear. The original PEAP led to transfers that were too specific. So, for example, while Lake Victoria island districts required water transport solutions to address poverty, the transfer from national government was earmarked for the development of feeder roads.

As a result, the plan therefore had to be conceptualised at a higher level, so that lower-level processes could identify context-specific interventions. It was also realised that to improve the legitimacy of the plan as a strategic agenda-setting instrument, it would need to be better rooted in wide participation so that it could legitimately claim that it was representing the interests of the poor.

The 2000 PEAP was based on four broad pillars: creating an enabling environment for sustainable economic growth and transformation; promoting good governance and security; directly increasing the ability of the poor to raise their incomes; and directly improving the quality of life of the poor. (Separately, on the consultation side, the Uganda Participatory Poverty Assessment Project got under way in 1998 with the twin objectives of undertaking direct consultations with the poor to improve the quality of government's poverty eradication plan and to build up participatory planning capacity at the local level.)

For the 2004 PEAP the revision process was further improved. For one, the process started earlier, in 2002. It also included more analytical work: a poverty status report was developed and an analysis of poor people's perspectives from the new participatory poverty assessment was conducted in more districts than before. The Ministry of Finance and Development – under which mandate the PEAP falls – also ensured that it was on top of the process with the establishment of a secretariat and revision guide. Five consultation strands were designed covering central government (through budget sector working groups), local government, the private sector, civil society and cross-cutting issues teams. The analysis and consultation results were drafted into a coherent plan by teams of technical officers who drafted each pillar, and one long-term consultant who consolidated the pillars into one document.

The documents were discussed in the PEAP secretariat weekly meetings as they were developed. This process was slow, because it took time to establish consensus. Stakeholders were given the opportunity to comment on the drafts and these comments were considered and incorporated. The 2004 PEAP has five pillars: economic management; production, competitiveness and incomes; security, conflict-resolution and disaster-management; good governance; and human development.

There is consensus that the PEAP has enlarged the space for policy-making in Uganda and that many actors are now included. In a way, this has bypassed the weaknesses of the political/electoral system. But at the same time, stakeholders (Deniva 2005: 9) say there is inclusion and exclusion of actors in the process. For the government, participation by CSOs is quickly justified as a substitute for political participation. The CSOs are also funded by development partners and in this way donors indirectly choose who participates and who does not. This selective participation in the setting of national agendas will be a challenge with the shift to multi-party politics.

These issues go to the heart of the use of poverty-reduction strategies as national agenda-setting instruments, and on the development of democratic governance. Are CSOs legitimate actors or should political parties take over, perhaps through parliamentary processes? Does the creation of consultation as a parallel process to elections undermine the development of strong political institutions? How well are narrow interest groups such as CSOs placed to capture processes at the cost of the majority?

After all, as Juan Jose Almagro noted in his presentation on the political economy of Poverty Reduction Strategy Papers in 2004, if the poor are the largest group, geographically disperse, with bad roads and other communication infrastructure, and speak a variety of languages, and if the non-poor are smaller groups, geographically-concentrated, with better communications and a common language, who will have the greatest influence on such consultative policy-setting processes?

In Uganda, participatory poverty assessments bring additional legitimacy to consultation processes, but the question is the degree to which the understanding of citizens' concerns generated from these processes is driven by the cognitive frameworks of the analysts responsible for drafting the reports.

The existing issues around the Ugandan Parliament and the PEAP also illustrate the difficulty of integrating parallel governance processes. The participation in PEAP processes by MPs is very weak. They rarely respond to invitations to participate in workshops, and when they do, their 'ownership' of the process is limited.

The PEAP is alternatively seen as a donor-driven process, or one that excludes opposition views, or a document that is too strongly slanted towards the executive. This creates a crisis of legitimacy for the PEAP that undermines its usefulness downstream in the policy-budget process, when Parliament has the responsibility (as the principal of the purse and the agent of the people) to review the link between spending allocations, policy and the national policy agenda.

These types of tensions were reflected in the presentation, which noted that given limited capacity and resources in Parliament, donor partners have a larger influence on the strategic direction of the country.

1.2.4 Poverty-reduction and principal-agent relationships

Haggard and Kaufman (1995, as quoted in Kapstein & Converse 2006: 10) emphasise the importance of institutions that can channel conflict over policies and resource distribution for the formulation of economic policy and its outcomes. In their view, broad-based, cohesive parties (or stable coalitions of parties) are particularly suited to perform this function. In contrast, they find that fragmented or polarised party systems generally fail to implement economic policies. As many countries move into second-generation poverty-reduction strategies, it would seem that these processes have supplanted broad-based cohesive parties with strong policy-based and credible political agendas in performing a similar function in developing countries.

This view is supported by the Overseas Development Institute's note on second-generation poverty reduction strategies.The note says that the influence of debt-relief processes as a driver and shaper of poverty-reduction strategies is far less, while key local stakeholders have moved towards practical action in support of processes. They do warn, however, that new donor pressures – such as the desire to make progress towards the Millennium Development Goals – run the risk of damaging the fragile steps taken in this direction. Experience with the first generation of strategies however, suggests that the approach has made important progress in three key areas. It has contributed to a much stronger government focus on poverty; engaged civil society in poverty policy debates on a significant scale; and brought donor alignment and harmonisation onto policy agendas.

In short the poverty-reduction strategy approach to policy agenda-setting tries to increase the pro-poor focus and accountability of policy-making by affecting the environment within which policies are being made, and involving the key actors in development, implementation, monitoring and evaluation of policies. Such strategies attempt to build a broad support base, increasing their legitimacy and the capacity of governments to implement them. They have also proven to be good vehicles for increasing the production and availability of information on government strategies, policies and institutional processes, of budget, economic and social data and of analytical studies. They have catalysed the development of better monitoring and evaluation of results, and improved understanding of evidence-based policy-making. These factors in themselves have contributed to greater accountability and greater transparency, both necessary for functional principal-agent relationships throughout the democratic governance chain.

As noted previously, there are concerns about donor influence. Arguments that donors should have no influence at all ignore the very real and often clearly stipulated contractual relationships that already exist. They are the inevitable consequence of using international development assistance to supplement domestic revenues in carrying the cost of government. While concerns about the tension between accountability to donors as principals rather than citizens are well-placed, in principle a mechanism that recognises principal-agent duties that are already in place is much better than one that pretends that they do not – and fail as a consequence.

Poverty-reduction strategies can be interpreted as three-way contracts that recognise that the principal-agent relationships driving policy agendas are already triangular. They set in place arrangements that explicitly structure the contract so that consensus can be reached between the two sets of principals on the agent's deliverables and the information that will signal that the agent is performing. That is besides the benefits that have accrued to citizens from greater donor capacity to structure contracts so that fundamental agency problems are overcome.

Of course, balancing accountability to donors with accountability to citizens is a crucial issue for building democratic institutions in developing countries – nor has this balance been achieved in many countries that are now moving into second-generation strategies. However, working downstream in more specific policy and budget processes soon reveals that the rhetoric about ownership in the first-generation strategies has reduced their legitimacy (Almagro 2004).

As was set out at the 3rd Annual CABRI Seminar by John Burton from the UK's Department for International Development, donors themselves have gone through the process of agreeing on the level of engagement that they require. For donors it is important to agree with countries on the goals that their policy agendas should follow. How countries fulfil these goals – through strategies, policies and activities – are the decision-making privilege of governments and their domestic audiences. The commitments of the Paris Declaration on Aid Effectiveness echo these words. While many donors are still very far from putting these principles into practice, others have already shifted in their practices at country level.

Here it should be noted that poverty-reduction strategies have played a role in regulating how donors engage in country processes. Increasingly, the strategies are the fulcrums around which donors are required to structure their engagement with governments throughout the policy, budget, implementation and service delivery chain, downplaying their potential negative influence[2] on policy agendas as privileged interest groups and increasing alignment between donor funds.

A final element to consider in this process is donor countries' own citizens. In the chain of principal-agent relationships, the one between development partner agencies and their own taxpayers drives donors' insistence on fiduciary assurances and their quest for effective and efficient use of donor funds. This complicates matters a bit further. In practice, the inability of donor agencies to use country systems is often caused by the legal requirements for using public funds in their home countries.

However, at the level of goals, which determine whether spending can be viewed as effective by development partner citizens, international exercises such as the Millennium Development Goals and Human Rights instruments are a form of multi-party contract. Insofar as developing countries participate in these exercises through their governments (which are the legitimate agents of the citizens) the introduction of such goals into domestic policy agendas are perfectly valid and legitimate. At the very least, they bring some alignment between the wishes of citizens in donor countries and those in countries that receive aid.

1.2.5 Conclusion

This paper has explored how poverty-reduction strategies function as policy agenda-setting instruments in developing countries. It has argued that specific contextual factors in developing countries exacerbate agency problems in the relationship between the citizens and governments. Poverty-reduction strategies strengthen the relationship between citizens and their governments by improving information flows, regulating donor influences and fulfilling key requirements of a good policy agenda. The key requirements of such an agenda are that it should be well-understood and legitimate, contain clear stipulations on what public policy and spending objectives are and indicate how successful achievement of the objectives will be measured.

The paper has also put forward that poverty-reduction strategies that allow donor influence at some level represent a necessary practical recognition of an existing three-way principal-agent relationship. The inclusion of international development goals in their formulation should be seen as an expression of contractual alignment.

In conclusion, there is evidence of governance failure in many young democracies. Parliaments do not function as they should; the real relationships between officials and elected office holders are not conducive to good governance; the formal rules of governance are often ignored and informal practices prevail. The evolution of poverty-reduction strategies as a contract between the citizens and the government, contributing to impetus for action and accountability, may be a platform on which more contextualised democratic institutions can develop.

The Overseas Development Institute's note (Piron & Evans 2004) on the politics of poverty-reduction strategies captures this well when it states that a particular point of interest in country case studies on politics and poverty-reduction strategies is the way in which political institutions, poverty-reduction strategies and the long-term political development of countries interact. It is not only that the politics of the country shapes the possibilities arising from the poverty-reduction strategy initiative, but it is also that the strategy has made a contribution to political change and the development of political institutions in the country.

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Endnotes to Chapter 1

1 This section draws on Deniva 2005 *Participation in Uganda's Development Processes, What mechanisms are in place*, Background Paper for the Africa Peer Review Mechanism, Development Network of Indigenous Voluntary Associations, Kampala, and on Ssewakiryanga R 2005. *The politics of revising the PEAP/PRSP* presentation at the International Conference on Political Dimensions of Poverty Reduction, Lusaka, Zambia, March 2005.

2 Unlike the interest groups that are central to Olson's conclusions, donor groups can perhaps be said to capture country policy agendas to promote policies that enhance the welfare of the majority of citizens. However, outright capture in itself is detrimental to the establishment of working political institutions.

2

Translating political objectives into sound policy proposals

2.1 Introduction

This chapter explores the nature of policy-making and the role of senior budget officials in that process.

A policy can be defined as the translation of a government's political priorities and principles into courses of action to deliver desired changes. The two papers in this chapter explore the nature of this 'translation' process in the context of a national policy agenda, as presented in a poverty-reduction strategy or government plan.

In the traditional theoretical model, policy-making has been viewed as a linear process in which rational decisions are taken by those with authority and responsibility for a particular policy area. This approach envisions a number of stages leading up to a decision – the identification of a problem, exploration of options, weighing options and choosing the preferred one, followed by policy implementation and evaluation. This model assumes that policy-makers approach the issues in a logical progression, going through each stage of the process, and carefully considering all relevant information. Implementation is viewed as a separate activity that begins once policy decisions are made.

At the other extreme, the 'garbage-can' model has been proposed. Rather than portray public policy decision-making as a rational, linear process, theorists of this school have likened it to organisational anarchy. Organisations do not operate with clockwork precision and predictability; rather they function like garbage cans, into which many problems and solutions are poured at the same time. Outcomes are shaped by the number of decisions that need to be made, how the organisation is accessed by stakeholders and its work load, resources, time, commitment and energy.

The two papers in this chapter suggest that the reality generally falls somewhere between these two poles. While the legal framework and the official policy channels do structure policy-making, the process is never as tidy as the rational model assumes. The papers discuss how Mozambique and South Africa balance predictability and discipline with flexibility and responsiveness in their policy processes. Ultimately, the authors ask how policy processes succeed in bridging the gap between policy agendas and budget allocations.

The first paper, by Álvaro Vicente Loveira and Carla Fernandes from the Ministry of Finance in Mozambique, sets out the role of the poverty-reduction strategy in guiding sector strategic plans and budgets. In the second paper, CABRI researcher Alta Fölscher and Neil Cole from South Africa's National Treasury sketch the South African system – a more open, reiterative and diffuse process that allows for alignment with the government's electoral mandate.

2.2 Realising a commitment to poverty reduction: the role of PARPA in directing the use of resources in Mozambique

Álvaro Vicente Loveira & Carla Fernandes[1]

2.2.1 Introduction

The central theme of this paper is the implementation and effectiveness of the Action Plan to Reduce Absolute Poverty[2] (PARPA) in Mozambique. The paper is based on an analysis of the existing links between the various government policy and planning instruments, and takes into account the overall country and macroeconomic context.

Mozambique is a developing country with an estimated population of 19.4 million people. During the 1990s the government initiated an extensive programme of economic reform. This led to high rates of economic growth, but by the end of that decade, poverty levels were still high, with 69.4 per cent of the population living in absolute poverty. In the late 1990s the government drafted PARPA to reduce absolute poverty to below 45 per cent. According to recent statistics, the poverty index is 54.1 per cent.[3]

PARPA defines the government's priorities on a five-year basis, taking into consideration the key priority areas in which absolute poverty is to be fought through initiatives in education, health, infrastructure and good governance. PARPA II was approved in 2006 and builds on the approach and achievements of the first plan, PARPA I.

Three elements ensure the effectiveness of PARPA as an instrument: firstly, its role as an *operationalisation instrument* for Agenda 2025, the government programme to formulate sectoral strategic plans, and to prioritise poverty-reduction objectives; secondly, its role as a *strategic instrument* of economic and social policy, in which development guidelines and poverty-reduction strategies are explained in an integrated manner, as well as the priority targets and actions resulting from this strategy; and thirdly, its role as an *instrument to define and develop partnerships* with various national and international role players.

To improve the allocation and distribution of the existing resources for policy implementation, the government has drawn up planning instruments such as Agenda 2025, the government's five-year plan (PQG), PARPA, the medium-term fiscal scenario (CFMP), the economic and social plan (PES) and the state budget. Specific sectoral strategies and policies have been developed for each of these instruments.

This paper has been structured into five sections: (1) Introduction; (2) The context in which planning instruments operate; (3) Profile and formulation of planning instruments; (4) Role players in an effective PARPA; and (5) Lessons learnt and best practices.

2.2.2 The context in which planning instruments operate

Government priorities

The government's main priority is to improve the standard of living and well-being of its citizens. Its objectives for the five years of its mandate (PQG, 2006) are:

- balanced economic and social development;
- reducing absolute poverty;
- consolidating peace, national unity and democracy;
- enforcing law and order;
- improving education and health;
- motivation and better use of the labour force by promoting honesty and enthusiasm;

- ensuring individual freedoms and social harmony;
- promulgating laws against criminal acts; and
- guaranteeing sovereignty and strengthening international co-operation.

To attain these objectives, PQG defines the key areas of action as education, health, infrastructure, agriculture, rural development, good governance, legality, justice, macroeconomic policy, finance and international commerce. The government's role is focused on improving the provision of basic services to the poorest sectors of the population, promoting the accelerated and sustainable development of rural areas, and increasing wealth-creation, poverty-reduction and good-governance initiatives. The market economy is seen as a catalyst in accelerating sustainable economic development.

The PQG's priorities are to reduce absolute poverty and to promote human, economic and social development in both rural and urban areas. The government has implemented short-, medium- and long-term actions in the form of national development plans and strategies for combating poverty and HIV and AIDS. In addition, it has introduced programmes in line with regional, continental and international initiatives, especially the Millennium Development Goals and those of the Southern African Development Community and the New Partnership for Africa's Development.

PARPA provides for further development of these priorities. PARPA II has three pillars: governance, human resources and economic development.

The *governance pillar* aims to turn the state apparatus into a tool for the development of human resources and the economy. The goal is to develop institutions so that authorities, guided by the rule of law, ensure transparency and accountability, and prevent embezzlement and misuse of public funds. The state should also actively enforce the law as a means to combat criminal acts and corruption.

The *human resources pillar* covers the development of the workforce, technical and scientific skills, well-being, health and safety in the workplace, access to basic resources (especially food, water and adequate sanitation), and reducing the incidence of diseases that affect the most vulnerable population groups (focusing on HIV and AIDS, malaria and tuberculosis).

The *economic development pillar* concentrates on the basic conditions for promoting productive activities: the improvement of infrastructure that supports the generation of wealth; guaranteeing the availability of natural resources; reducing bureaucratic obstacles; and promulgating legislation that will guarantee the enjoyment and protection of citizens' rights, and provide incentives for increased productivity and innovation.

The planning instruments are based on certain macroeconomic assumptions. These include an economic growth rate (assumed in PARPA II to average 7 per cent in the period 2005–2009) and a single-digit inflation rate within a flexible exchange rate regime to the US dollar and the South African rand.

Macroeconomic indicators are crucial to policy formulation, as they allow for the realignment of policies according to economic reality. In PARPA II, for example, it was expected that these macroeconomic indicators would have remained stable during the entire period, with the exception of 2006, in which the average annual inflation was expected to reach 12.5 per cent. This in turn would require a restrictive monetary policy to improve citizens' purchasing power and well-being, and some policy instruments had to be geared towards pursuing single-digit inflation.

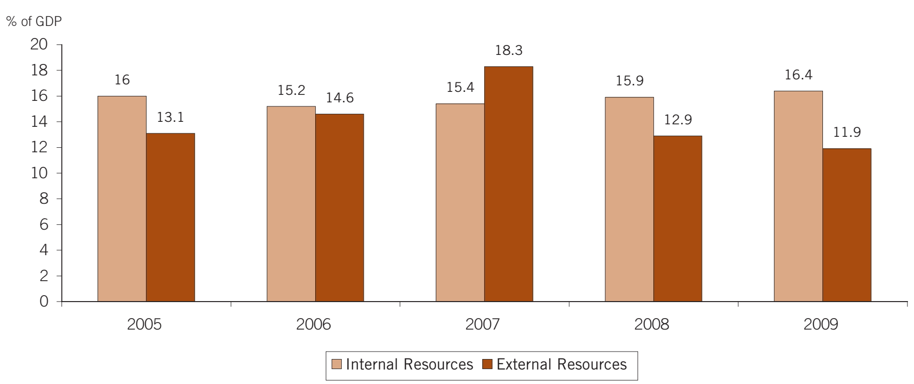
External resources and development partners

Mozambique depends substantially on external assistance, as shown in Figure 2.2.1 below. As a result, the expected provision of both internal and external resources is taken into account when preparing budget policy for each financial year.

During the period 2005–2009, it is expected that internal resources will be equivalent to 16 per cent of GDP. State revenue is showing a positive trend, having increased from 13.7 per cent in 2005 to 14.2 per cent of GDP in 2006, and is expected to reach 15.4 per cent of GDP in 2007. This increase is mainly due to a broadening of the tax base, improved tax administration and successful steps to combat tax evasion.

During 2006 and 2007, external resources will amount to 14.6 per cent and 18.3 per cent of GDP respectively, accompanied by a significant reduction in off-budget items, greater inclusion in the state budget of external resources (mainly for investment projects) and more direct support for the state budget.

Figure 2.2.1: Internal and external resources as % of GDP, 2005–2009



Source: CFMP, 2006–2009

The reduction in off-budget items results from a joint effort by the government and donors supporting the state budget, as well as the standardisation of time frames for the disbursement of funds by co-operation partners during the budget cycle.

One of the main macroeconomic challenges is to halve the budget deficit of 49 per cent, which will require broadening the tax base and improving efficiency in the generation and collection of tax income, as well as the allocation and application of public expenditure.

Given the country's great need for external funding to carry out its action plans, it is essential that both the government and its co-operation partners develop a clear and comprehensive strategy to guide, systematise and regulate the flow of foreign aid. It is equally necessary to ensure co-ordination between the various state institutions with regard to the management and channelling of these funds to priority areas. In this spirit, the government is drafting a national co-operation policy. The government wishes to develop a foreign aid system led by the state that reflects its priorities, in a coherent and all-encompassing partnership with donors. This will minimise any macroeconomic distortions associated with the considerable external funding flows.

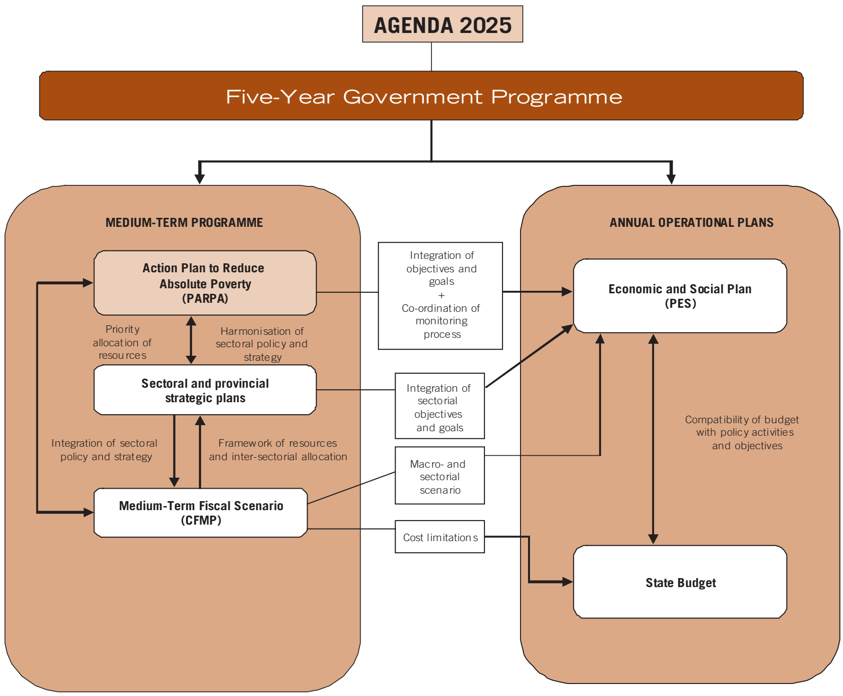
2.2.3 Profile and formulation of planning instruments

As discussed in section 1, Mozambique employs various strategies to promote development and reduce poverty. While Agenda 2025 is a long-term initiative and the PQG, PARPA and CFMP are medium-term planning instruments, the PES and the state budget are developed each year. CFMP bridges the gap between the policy planning instruments and the detailed financial planning instrument – the state budget. In addition to these planning instruments, the government also has specific sector strategies and policies.

The government has integrated the various planning instruments by sequencing them, standardising their role and the information on which they are based. This takes into account two types of variables: those directly aimed at reducing poverty, such as the provision of public services (water, education and so on) and job creation; and institutional variables such as public sector reforms, which have indirect effects. In the poverty-reduction strategy, these two types of variables and their respective measures are interlinked.

Figure 2.2.2 brings together these planning and budgeting instruments, illustrating the '*processo único*' – the unified process that the government has been implementing over the past few years.

Figure 2.2.2: Public planning system: interconnection between instruments



Source: PARPA II, 2006–2009

Profiling the instruments

Agenda 2025

The main objective of Agenda 2025 is to establish a national macro-strategy to stimulate and guide development until 2025. Its specific objectives are to create, through a participative process, a long-term national vision; and to prepare, also through a participative process, a national development strategy that will define the necessary policies and programmes to achieve the national development vision.

Agenda 2025 serves as an initial attempt by the government to present and formulate its action plan. This instrument defines the long-term objectives to be achieved.

Five-year plan

At the start of its mandate after an election the government formulates the PQG, which contains the main focal points for promoting the country's social, economic and cultural development, together with specific goals for the five-year period. So the PQG serves as the government's guideline for each mandate, with the current mandate running from 2005 to 2009. The PQG is formulated with the participation of and in co-ordination with various ministries, and reflects the country's main objectives during the mandate period.

One of the main weaknesses of the PQG is undoubtedly the absence of specific targets for each year; another is the lack of targets for each region or province, which naturally compromises the monitoring and evaluation process.

Action Plan to Reduce Absolute Poverty

PARPA is a flexible instrument, adjusted and updated on an annual basis in line with the CFMP and implemented through PES and the state budget. The formulation of PARPA follows a special methodology with the co-operation of government institutions, civil society and development partners. PQG and PARPA may be seen as two sides of the same coin, as they are based on the same fundamental principles, but move along different paths. PQG defines priority areas in which the government's action plan is to be implemented. Given that Mozambique is a developing country, the action plan is geared towards reducing absolute poverty, which is the main objective of the PQG. PARPA is a specific tool for putting into operation the government's binding poverty-reduction commitments.

PARPA II was prepared in two phases:

- The first phase consisted of drafting PARPA II, culminating in the establishment of the 3rd Poverty Observatory and the delimitation of the medium-term action plan into three pillars – governance, human capital and economic development, with several cross-cutting features.
- During the second phase government produced the necessary documents and materials (operational matrix and strategy) and drafted a preliminary version of PARPA II by working and thematic groups (Table 2.2.1).

The economic and social plan

PQG and PARPA are implemented by means of an annual plan known as the PES. This plan is financed by and contained in the annual state budget; the budget, in turn, is monitored and evaluated primarily according to the outcomes contained in the PES.

The PES sets out the government's annual plan of action, including the policies to be adopted and the targets to be reached, based on the strategic options established in the CFMP. The PES specifies the activities that will be carried out and how they

Table 2.2.1: Structure of working and thematic groups

Thematic groups	Working groups
Macroeconomy and poverty	- Economic growth and macroeconomic stability
	- Analysis of poverty and monitoring systems
	- Public finance management
Governance	- Reform of public sector/decentralisation
	- Reform of the legal and justice system
Economic development	- Financial sector
	- Private sector
	- Agriculture
	- Infrastructure: roads, telecommunications, harbours and railroads
	- Infrastructure: energy
Human capital	- Health
	- Education
	- Water and sanitation
Cross-cutting factors	- Mining
	- Environment
	- Disasters
	- HIV and AIDS
	- Gender
	- Food and nutritional security
	- Science and technology, rural development

Source: PARPA II, 2006

contribute to overall government objectives as set out in the PQG and PARPA. The PES is governed by a 2004 decree on the regulation of the state financial management system.

The PES format covers five major areas:

- The international environment.
- The domestic macroeconomic.
- The main developments in each sector.
- Budget policy.
- Cross-cutting factors, including actions to be carried out in the areas of demining, reducing the impact of disasters, HIV and AIDS, the environment and so on.

The main actors in the implementation of the PES are government institutions at all three levels (central, provincial and district), co-operation partners and civil society. While both government institutions and co-operation partners are actively involved, civil society is not due to a lack of technical capacity. Although there is enough scope for participation, civil society still has to decide on the key areas of intervention and how it intends to contribute to strengthening the effective implementation of the PES.

Monitoring of the PES is based on ministries and the National Statistics Institute providing quantitative data. This data forms the basis on which the government drafts the PES and the state budget. At the same time, the outcomes of the PES constitute an instrument for monitoring and evaluating PARPA. In this regard the government introduced an annual poverty report in 2003, with quantitative and qualitative sector and topical data related to the PES outcomes and PARPA. This report is the basic document for brainstorming the results of the implementation of PARPA, which is done by the Poverty Observatory, a forum for reflecting on and evaluating the implementation of PARPA in which the government, civil society and international co-operation partners participate.

Medium-term fiscal scenario

CFMP is a medium-term planning tool used in the preparation of the state budget, and for collecting and managing public resources. Its main objective is to improve the quality of public services. The CFMP makes it possible to effect structural changes in expenditure and increase the level of predictability of resources, contributing to a coherent strategy that is compatible with the potentially available funds.

The activities envisaged by the PARPA should therefore be covered in the CFMP in terms of the necessary resources. In practice however, the CFMP is still being developed in this role. The quality of information on which the CFMP is based, and the difficulties encountered in properly costing PARPA objectives, have limited the effectiveness with which policy trade-offs can be assessed. As a consequence, budget ceilings have been set in an incremental fashion. The existence of a large amount of off-budget donor resources at sector level has also undermined the significance of the exercise. The government is committed to making improvements in this area.

The state budget

The state budget is based on the forecast of internal and external resources, and details the allocation of available revenue to the various institutions of government.

The Ministry of Finance develops the general budget policies, the specifics of which are the responsibility of the National Budget Directorate. When preparing the state budget, the directorate takes into account the general guidelines, the objectives of budget policy, and the forecast of expected internal and external resources.

The actions planned in PARPA II are carried out annually through the state budget via the PES. The 2007 budget, for example, makes provision for the fight against poverty as mentioned in PARPA II, with about 66 per cent of the total costs destined for the priority areas defined in PARPA, as shown in Figure 2.2.3.

The following steps are followed in the formulation of the PES and the state budget:

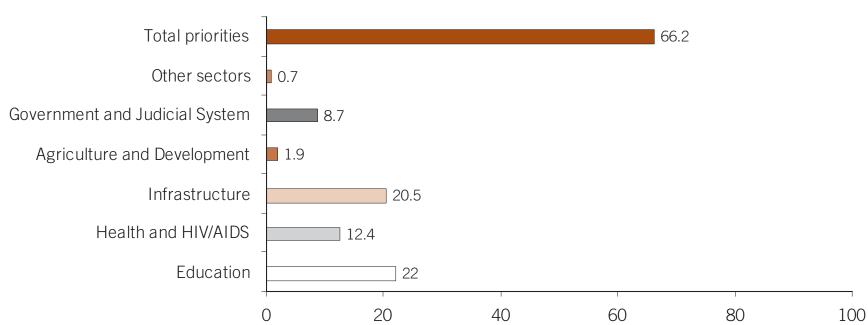
1. Budget limits are forwarded to the various ministries in June each year.
2. The ministries submit their proposals to the planning and finance ministries by 31 July.
3. The combined proposals are analysed by the two ministries in August.
4. The draft PES and the state budget are submitted to the Economic Council by 15 September, to the Council of Ministers on 19 September, and to the Assembly of the Republic on 30 September.

Monitoring and evaluating the planning instruments

The purpose of monitoring and evaluation is to ensure that the government is consistent in its implementation of the planned objectives and actions. The information flow generated by a monitoring and evaluation system makes it possible to take informed decisions about possible changes to poverty-reduction programmes, to identify opportunities and capitalise on those initiatives which, according to the information generated by the system, show encouraging possibilities for duplication.

Monitoring and evaluation is also a tool to keep the government, civil society, parliament and co-operation partners informed about the progress achieved in the

Figure 2.2.3: Expenditure on priority areas



Source: 2007 Budget

implementation of PARPA II, as well as about the problems encountered.

Government undertakings are monitored through the PES balance sheet, the main purpose of which is to assess whether the general policies planned by the government for each year have effectively been implemented, and the extent to which the absolute poverty-reduction objective, as set out in PARPA II, is attained.

The government's commitments are monitored via the output targets on the PES 'balance sheet'. These outputs are used for an effective analysis of the previous year's programme. In other words, the programmed activities are compared to how they were put into operation and implemented.

The initial conceptualisation of a PES monitoring and evaluation system was aimed at identifying weaknesses in the intersectoral approach and providing answers about decentralisation and participative monitoring. The weaknesses in the inter-sector approach are caused by poor planning capacity in various sectors, leading to a huge gap between planning and implementation. Implementation is monitored by analysing the integration and consistency of policies, outcome and output indicators, through qualitative and quantitative monitoring, as well as through a participative approach where the results of monitoring are disseminated among the population.

The PARPA II monitoring and evaluation strategy is based on five principles:

1. Consistent and adequate *mainstreaming* of PARPA monitoring in existing government programme monitoring tools.
2. Differentiation between *outcome* indicators that evaluate the attainment of specific, defined objectives and *output* indicators that measure the level of fulfilment of the activities carried out.
3. *Quantitative and qualitative* monitoring, combined with the collection of information and the institutional partnerships to be developed for this purpose.
4. *Continuous review* of strategic targets and programmes.
5. A *participative* approach, especially in the collection of information, achieving consensus about the objectives to monitor, and analysis and dissemination of results to the public.

Monitoring the PQG – in other words government's political commitments – is the responsibility of the Ministry of Planning and Development. Recent improvements in the approach include the mainstreaming of indicators from the Framework for Achievement Evaluation into other processes. The Ministry of Finance, through the Inspector-General of Finance and the Administrative Court, provides an audit on the use of resources.

However, there are still some gaps in the evaluation of the government's performance. It is essential that civil society participates actively in the Poverty Observatories, which are an appropriate forum for discussing the government's performance. One of the constraining factors in government monitoring is the lack of a link between financial and physical implementation.

Efficiency of tools versus governance

Mozambique uses a traditional linear decision-making planning model. The formulation of an action plan leading to a decision follows various steps, as shown in Figure 2.2.4.

According to this traditional model, formulating plans is essentially a technical exercise; politics only come into play at the decision-making stage. The government has taken various steps to render these processes more effective.

At internal level government has addressed the following issues:

- Administrative and financial decentralisation through the establishment of planning processes, programming and budget administration, and the structuring and establishment of local state institutions, aimed at increasing citizen participation in socioeconomic development.
- Development of a tax administration system following the establishment of the Mozambican Tax Authority in 2006.
- Further development of a state financial management system, with greater impetus to the decentralisation of the administration and execution of the budget in the various sectors and provinces via the electronic SISTAFE (e-SISTAFE) system. With the exception of salary, remuneration and pension payments, most items in the state budget are now administrated directly through e-SISTAFE. A new model for compiling the state budget was also developed and served as the basis for compiling the 2007 budget proposals.
- Improvement of macroeconomic management with the introduction of the new Metical, aimed at facilitating transactions.

These measures have, however, been affected by external constraints such as rising world oil prices, which continue to affect macroeconomic management and, consequently, the state budget.

Challenges in the use of planning instruments

The government has made great efforts to establish an effective national planning

Figure 2.2.4: Formulation process for action plans and decision-making

Preparation of agenda (long-term, medium-term and short-term objectives)

↓

Research, discussion and presentation of proposals

↓

Study/consideration of costs and benefits of each proposal

↓

Decision-making

↓

Implementation of action plan

↓

Evaluation

system. While its approach has matured from linear planning to a more comprehensive framework (see box on next page), the following challenges still remain:

- *Available financial resources* – To attain priority objectives requires financial resources. However, the real growth rate of state revenues is less than real GDP growth rates, putting pressure on revenue reforms.
- *Duplication of activities* – In some cases, the existence of conflicting information and lack of knowledge on the task allocations to departments leads to duplication of tasks between ministries, or even between departments in the same ministry.
- *Multiplicity of planning instruments* – The existence of multiple planning tools can lead to certain constraints. Policy measures to be implemented annually remain tied to what has already been planned, which results in difficulties in approving needed measures that arise on an ad hoc basis. In addition, time and staff used in the annual preparation of planning instruments and associated documents could be put to use in the implementation of other priority tasks, particularly given the scarcity of skilled staff.

2.2.4 Role players in an effective PARPA

The effectiveness of the action plans and other objectives and interests is ensured by the interaction between the various role players.

The *government* plays a crucial role in determining the standard of living through provision of quality schooling, hospitals, community primary healthcare facilities, the environment, public transport, law and order, urban planning and social services, as well as the quality of the goods and services available to society.

The *Administrative Court*, which operates jointly with the various public administration authorities and other entities, is an independent external financial control body, which ensures the legality of activities and sound financial management, as well as compliance with citizens' constitutional rights. The court plays a substantial role in ensuring the rule of law, and making sure that public funds are used in a transparent manner, with the possibility of prior or successive reviews by an external auditing body, leading to a high level of impartiality in the conduct of its supervisory activities.

As far as the policy instruments are concerned, the Assembly of the Republic legislates on basic internal and external policy matters; approves the report on the

From linear to comprehensive planning

In the initial phase of drafting a plan, the following basic elements should be included:

- Definition of the general and specific objectives.
- Formulation of effective and realistic strategies.
- Identification of timelines and critical areas for the reduction of the poverty index from 54 per cent in 2003 to less than 45 per cent in 2010.
- Decision-makers (government, civil society and co-operation partners).
- Measurable results.
- Compatibility with the envelope of available resources.

In a second phase, the plan must be reviewed and formulated with a framework approach that better takes the context of plan formulation into account. Plans must be formulated according to the *Nine Components for a Modern Formulation of Action Plans* issued by the Cabinet of the United Kingdom (see http://www.cabinetoffice.gov.uk). The key elements to cover are: future prospects; external perspectives; innovation, flexibility and creativity; based on evidence; comprehensive; integration; review; evaluation; and lessons learnt.

execution of the previous year's state budget and the national PES; defines the basis for tax policies; ratifies or rejects international agreements and treaties; and approves reports on the government's activities.

The *Council of Ministers* is answerable to the Assembly of the Republic for the implementation of the state policies. The council prepares the PES and the state budget, and is accountable for their implementation after they have been approved by the Assembly of the Republic. The council prepares draft laws and decisions for submission to the assembly, the Standing Committee of the Assembly or the president of the Republic. It also prepares decrees by delegation and within the scope of powers granted by the assembly. The council directs and co-ordinates the activities of the ministries and other state institutions answerable to it. It also guarantees the rights and freedom of citizens.

The *sectoral ministries* play a role in guaranteeing the rational use of public resources and the comprehensive execution of the programmed activities.

The *district governments* play a role in accelerating economic growth.

Civil society plays an advisory role in public policy design.

The *donors* must ensure that their commitments are realistic and that funds are disbursed according to plan.

The *private sector* plays a role in economic growth by creating jobs, increasing productivity and technological innovation, improving the efficiency of the workforce and the owners of capital, as well as the integration of various sectors in the national, domestic and international economy.

Despite some of the challenges identified above, the PARPA II process has great potential to promote increased participation in the policy process. The creation of working and thematic groups, which monitor implementation, has greatly enhanced the opportunities for various actors, particularly civil society and donors, to become involved in a more meaningful way. The creation of national and provincial Poverty Observatories has had a similar effect. With the gradual bringing 'on budget' of donor projects, both the Assembly of the Republic and the Administrative Tribunal can play their oversight role in a more comprehensive and effective way.

2.2.5 Lessons learnt and best practices

The CABRI 3rd Annual Budget Seminar was an eye-opener with regard to the role of public servants in the process of formulating policies and ensuring their effectiveness. This section looks at the role of PARPA in the light of the theme and discussions of the seminar.

At the beginning of the paper, we identified three elements of the PARPA process that should be considered to assess its effectiveness. We will now take a look at them again in the light of the material discussed:

- As an *operationalisation instrument* for other policy statements produced by the government, PARPA II is a success, given the much greater level of detail that it provides on foreseen policies, activities and related targets, in relation to the various planning instruments and the state budget. An obstacle to this, however, is the difficulty of practical and detailed costing of policy implementation given scarce information available at sector level.
- As a *strategic instrument* of economic and social policy, PARPA II has contributed to focusing the government's attention on key priority areas in the fight against absolute poverty, in particular by giving more emphasis to the need to promote growth and wealth creation. Its main drawbacks are that it covers a limited number of sectors, and that it needs to be constantly updated to reflect changing circumstances.
- As an *instrument to define and develop partnerships* with various national and international actors, PARPA II has also achieved some success, given the increase in external financing from development partners, and continued efforts to better integrate donor projects and programmes in government systems. Fragmentation and duplication, along with the lack of predictability of disbursements, remain a problem. Civil society's contribution has also been limited as a result of lack of capacity.

The assessment of the effectiveness of PARPA II as an instrument guiding all government policies towards the main objective of poverty-reduction has identified additional positive experiences and challenges.

The following positive experiences stand out:

- Both PARPA I and PARPA II were sufficiently participative processes involving a range of actors such as state institutions, civil society and development partners. Decision-making becomes more realistic when strategies are defined together with those who live in the affected environment.
- The results achieved so far have been positive: poverty was reduced from 69.4 per cent in 1996/1997 to 54.1 per cent in 2002/2003.
- The government has expanded provision of basic services in priority sectors.

The further challenges encountered in drafting PARPA II were mainly in the field of strategy, organisation and management of monitoring and evaluation:

- Improving the existing monitoring and evaluation tools.
- Implementing missing instruments such as the impact assessment report.
- Aligning the decentralisation process with the need for participation in the Poverty Observatories at national and provincial level.

In conclusion, PARPA, operating as it does in a structured constellation of planning instruments, has improved the effectiveness with which the government translates its political objectives into specific strategies, programmes and budgets. In order for this process to be fully effective, monitoring and evaluation processes need to be improved, and the participation of and consultation with all role players (civil society, trade unions and donors) in policy formulation need to be increased.

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2.3 From policy agendas to policies in South Africa

Alta Fölscher & Neil Cole[4]

2.3.1 Introduction

In South Africa, policy-making takes place without the guidance of an overarching framework such as a Poverty Reduction Strategy Paper or national development plan.

Poverty-reduction strategies are usually upfront instruments according to which individual ministries develop their sector policies. A basic difference between the South African system and most others in Africa is that while there are national frameworks in South Africa within which policies are prioritised, funded, monitored and evaluated, these are 'rolling' instruments, updated on an annual basis, rather than national strategic plans that are periodically formulated and remain in place for the medium to long term.

As discussed below, however, there is a connection between policy frameworks from year to year. Because these policy instruments are so closely connected to the medium-term expenditure framework (MTEF), and because the forward years in each framework are highly influential in determining government's spending and activities over the medium term, there is a rolling set of priorities that can only change on the margin.

There are, of course, long-term standing frameworks. The South African Constitution, passed by the Constitutional Assembly in 1996 as the social contract of the post-apartheid democracy, is the main standing frame of reference within which all policies are developed. Some of the rolling frameworks, as discussed below, are hybrid instruments formulated for the medium term. These instruments are updated on an annual basis, but include endpoints at which they are no longer in use.

This paper will set out how this more diffuse system of policy-making works. It will explore the link between political priorities and policy agendas by examining what informs policies, who and what influences policy formulation, whether policy-formulation is sufficiently connected to reality as experienced by citizens and whether it responds to public need. Finally, the paper will explore who is ultimately accountable for policy-formulation.

2.3.2 The policy environment

As in other CABRI member countries, South Africa's policies are made within the context of national debate. The existence of a robust free media helps to ensure that there is a vibrant public space within which citizens, as individuals and through various interest groups, contribute to a national discussion on priorities.

There is broad consensus on what these priorities should be: uprooting poverty and inequality, providing for people's basic needs, economic growth, developing economic and social infrastructure, reducing unemployment, carrying out land reform, protecting the environment, improving education, dealing with the HIV and AIDS pandemic, reducing crime and violence, promoting good governance and the continued development of our young democracy. This list is not exhaustive, but there is little doubt that most South Africans would consider these to be priorities. There is, however, no consensus on how these issues are interconnected, their causes and effects, and most significantly how they should be addressed. These questions are the grist of public debates.

The policy environment is informed by a number of factors. Firstly there are the explicit *developmental mandates* of the government, drawn from the Constitution, and government's electoral mandate. The Bill of Rights in the Constitution particularly sets a development mandate for the South African state. Positive (or second-generation) rights are recognised.

The Bill of Rights, with the duties it places on the state, is a key influence on policy-making. While policies often take the Bill of Rights as a starting point (for example,

The Bill of Rights

The Bill of Rights in the South African Constitution protects the civil, political, economic, social and cultural rights of all persons in the country. It provides in detail for the right to life, equality, dignity, citizenship, privacy, a healthy environment and to property. It includes provisions for freedom of security and person, of religion, belief and opinion, of expression, of assembly, of movement and residence, of trade, occupation and profession, of demonstration picket and petition, of political choice and of expression. It recognises labour rights, both of the employer and the employee.

The Bill of Rights also includes 'positive' rights that the state has to fulfil progressively, to the best of its ability. For example, the state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of the right to housing. Other rights of this nature are the right to health care, food, water and social security and assistance. For these rights the Bill of Rights has clauses that limit the limitation on the duty of the state. For example, no one may be refused emergency medical treatment even if the right to health care should only be realised progressively within the state's available resources.

The Bill of Rights designates the state (executive, legislature and judiciary) as the duty holder, but also provides that all natural and juristic persons are duty holders, insofar as is applicable taking into account the nature of the right and the duty imposed. The rights guaranteed may only be limited subject to the test of reasonableness and proportionality. Any restriction on a right must be reasonable and must be proportional in that the impact or extent of the restriction must match the importance of the aim served by the limitation of the right.

the child grant policy), in practice its influence as a key reference document has been strengthened by several cases brought by individuals or groups in courts against the state (see box on the Grootboom case later in this paper).

The Constitution recognises that government cannot deliver all these rights to all people immediately given resource constraints, but also compels government to gradually raise the floor on the provision of these rights. This 'progressive realisation of social economic rights' is an important point with regard to this paper. It forces the state to balance economic needs or resource constraints against competing priorities, but also to put these rights at the top of its list of priorities. It also means that sustainability must be taken into account. The state can for example only broaden social security if it is sustainable, since the Constitution does not allow for rights to be reduced.

Secondly, there are a number of *actors* in the policy environment. In addition to ministers, their staff and the senior officials involved in policy-making in departments at national and provincial level, Parliament, civil society organisations and interest groups, the private sector and organised labour are active in debating and shaping policy.

While official development assistance to South Africa is about 1 per cent of the consolidated national and provincial budget, *development partners* influence policy-making both directly and indirectly, through technical assistance placements. *International policy instruments*, such as Education for All and the Millennium Development Goals, and *international treaty instruments*, such as the Convention on the Rights of the Child, also play a significant role, as do the international and local *media*.

2.3.3 Key national framework instruments

In addition to the Constitution, which remains the overarching frame of reference, there are four main national policy framework instruments: Government's manifesto, the medium-term strategic framework, the annual State of the Nation Address and government's Plan of Action, and the budget framework documentation.

Vision 2014: Government's electoral mandate

In addition to the Constitution, the government's electoral mandate is the main framework for policy-making. This means that policy-making retains an inherently political nature: there are no competing – and purportedly apolitical – national policy frameworks.

The current government's electoral manifesto (2004 Manifesto – A People's Contract to Create Work and Fight Poverty) identified widespread unemployment and poverty, low rates of investment and economic growth, a low skills base, and high rates of crime as critical challenges. In the manifesto, Vision 2014 is articulated as building "a society that is truly united, non-racial, non-sexist and democratic". The manifesto identifies the following objectives to be achieved by 2014:

- Reducing poverty and unemployment by half.
- Providing the skills required by the economy.
- Ensuring that all South Africans are able to fully exercise their constitutional rights and enjoy the full dignity of freedom.
- Compassionate government service to the people.
- Achieving a better national health profile and massively reducing preventable causes of death, including violent crime and road accidents.
- Significantly reducing the number of serious and priority crimes and cases awaiting trial.

- Positioning South Africa strategically as an effective force in global relations.

These strategic objectives are broken down into targets for the first five years under the themes of a growing economy, sustainable livelihoods, access to services, comprehensive social security, crime and corruption, constitutional rights and governance, and Africa and the world. In many ways, the Vision 2014 manifesto commitments recognised that the only sustainable way to reduce poverty was through faster job creation, and hence the elevation of policies aimed at raising equitable growth.

The medium-term strategic framework

The medium-term strategic framework was introduced in 2004. The MTSF defines the strategic objectives and targets for the 2004–2009 period based on the core objectives of the government's electoral mandate, namely increasing employment and reducing poverty. The purpose of the MTSF is to inform five-year strategic plans that national and provincial departments table alongside their budgets and to identify critical actions to define a new trajectory for development, given limited resources and capacity.

The MTSF is reviewed annually during the July Cabinet *makgotla*,[5] an annual set of Cabinet workshops that help shape the budget. The box on the next page provides a brief overview of the priorities identified in the MTSF.

State of the Nation Address and the government's Plan of Action

The president delivers the State of the Nation Address in the first session of Parliament each year. The address is an important policy statement, highlighting priority issues to be addressed in the year ahead.

The speech forms a bridge between the MTSF and the government's Programme of Action. This programme, which identifies the key departmental programmes in terms of the government's mandate, is a rolling instrument. It consists of the list of targeted strategies and programmes that are already in place, organised against the key priorities and objectives identified at the annual January Cabinet *lekgotla* and in the State of the Nation Address.

The Programme of Action reports are published four times a year and provide an update on progress in priority areas. The reports present the information according to the five functional clusters of government, which are also referenced in the budget documentation. The priority actions are arranged in three levels. The five Cabinet clusters are:

- economic, investment and employment;

Medium-term strategic framework priorities

The MTSF formulates a single vision of actions necessary to put South Africa on a higher growth and development path. The document states that the central intervention required is to grow the economy. However, to ensure the quality of the economic growth, the state has to intervene decisively to promote the involvement of the marginalised in economic activity. Also, where able-bodied South Africans rely on welfare grants, these grants should be seen as a temporary intervention that should diminish as the economic interventions succeed. A final requirement set out in the document is that the performance of the state, the campaign against crime and international relations should improve to promote economic growth and social inclusion.

Within this framework the main priorities are:

- To grow the economy
  - By making deliberate trade-offs in macroeconomic and fiscal policy
- To increase investment
- To facilitate activity in the second economy
  - Through an expanded public works programme and supporting small and micro enterprises
  - By facilitating job creation, skills development, and work experience, land reform and agricultural support programmes
- To preserve and develop human resources through and for economic growth
  - By implementing the housing strategy
  - By improving primary health care, using the HIV and AIDS comprehensive prevention and treatment programme to build infrastructure
  - By improving education (further education and training colleges; primary school feeding programme)
  - By addressing needs and changing balances in welfare support
- To improve state capacity for growth and development
  - By improving the capacity of local government
- To combat crime
  - By improving the safety of the transport system
  - By increasing police numbers
  - By profiling and intervening in contact crime areas
  - By improving the efficiency of the justice system
  - By minimising illicit trade and drug dealing
  - By building the capacity of the intelligence services
- To develop international relations for growth and development
  - By focusing on the Southern African Development Community area
  - By marketing the country.

Source: The Government of South Africa (2004) *The MTSF*, Government of South Africa, Pretoria.

- governance and administration;
- international relations, peace and security;
- justice, crime prevention and security; and
- the social cluster.

The format of the Programme of Action reports (see Table 2.3.1) lists the departments responsible for implementation. The first department in the list is the lead department.

The final column is used to update the nation on progress. The Presidency updates the information on the implementation of programmes every two months, after progress reports have been submitted by clusters to the Cabinet.

The Programme of Action for 2007, for example, is based on the decisions of the Cabinet *lekgotla* in January 2007 and the February 2007 State of the Nation Address. It includes activities from the 2006 programme that were not completed during 2006, either longer-term time frames or because of delays that are receiving attention in the new programme. Table 2.3.1 illustrates the format by showing the priority actions for one of the government's priority health objectives (health promotion, reduction of non-communicable disease and unnatural causes of death) in the social sector.

The publication of the programme allows the public to follow progress of implementation and to make informed assessments of government's performance in fulfilling its electoral mandate. It is therefore an important tool for monitoring political priorities and policies. The Programme of Action will also detail which policies should be developed. However, a criticism levelled against the programme is that in many cases the actions specified are process-related rather than outputs.

Medium-term budget documentation and spending priorities

The final national policy framework instrument is determination of medium-term spending priorities, as published in the medium-term budget documentation. These priorities are expressed at a fairly high level (Table 2.3.2 provides the priorities for 2005–2008) and roll forward from one medium-term framework to the next. The priorities are determined by the Cabinet early in the budget process and are provided to departments in the budget guidelines. They are reported to the nation in the *Medium Term Budget Policy Statement* and the *Budget Review*.

The illustrations above show how the national policy framework instruments together provide a consistent and coherent framework within which national departments develop policies. These frameworks are updated each year as circumstances dictate. The final instrument (the medium-term spending priorities)

Table 2.3.1: The government's Programme of Action

	Actions	Departments	Time frame	Progress update
3	Comprehensive health care			
3.1	Health promotion, reduction of non-communicable disease and unnatural causes of death			
3.1.1	Enhance promotion of healthy lifestyles and change from risky behaviour, especially among the youth	Health Arts & Culture Education	Ongoing	An audit of existing health promotion programmes that impact on youth health has been undertaken; School Gardens continue to be promoted; eye-care month involving surgery, and promotion in schools continuing well
3.1.2	Enhance focus on non-communicable diseases such as diabetes, asthma and hypertension	Health	Ongoing	Departmental collaboration has been enhanced. Correctional Services has finalised the policy procedures on health care services, HIV and AIDS, Nutrition and Control of Tobacco
3.1.3	Work on study of causes of unnatural death to continue	StatsSA Health	Ongoing	A statistical release on the mortality and causes of death in South Africa 2005: The findings from the death notification have been completed and were released in June 2007
3.2	Continue implementation of Government's comprehensive plan to combat HIV and AIDS, informed by an updated national comprehensive strategy	Health Education Social Development	Ongoing	The number of patients on ARV is 320 447 of which 32 312 are children. This shows an increase from the number (300 000 beneficiaries) reported in the last reporting cycle
3.3	Combating tuberculosis, particularly response to Multiple Drug Resistant TB due to non-compliance	Health	Ongoing	The department developed the five-year national TB strategic plan with key stakeholders. 650 health care workers were trained on data collection tools to improve quality of TB data
3.4	Reducing malaria cases by 10% per year	Health	10% per annum	For August 2007 compared to August 2006 there was a 32% reduction in cases and 66% reduction in deaths (although the numbers are small i.e. 3 deaths compared to 1 for the period)
3.5	Bring about, without any further delay, the reduction of cost of medicines at retail outlets through use of medicine pricing regulations	Health	March 2008	The case against the implementation of the dispensing fees is still with the courts. The applicants to the dispensing fee court case i.e. the Pharmacy Stakeholders Forum and the Department of Health have held meetings to resolve this issue out of court
3.6	Further expansion of the health infrastructure, including refurbishment of existing clinics and hospitals, the re-opening of Nursing Colleges, expanding training and employment of nurses and social workers as well as auxiliaries, increasing the number of training institutions, improving the quality of training, and instituting a bursary system	Health	Ongoing	DoH is finalising an MOU to develop a number of assessment tools for all health infrastructure, to assist in prioritisation of refurbishment. A 100% audit of Primary Health Clinics is underway, results will be available in July 2008
3.7	Ensure that hospital managers are delegated authority and held accountable for the functioning of hospitals, with policy issues regarding training, job grading and accountability managed by provincial health departments	Health	Dec 2007	Two universities (UKZN and WITS) have enrolled 72 hospital CEOs into Masters Programmes in hospital management. 80% of hospital managers/CEOs have written delegations and 72% of hospital managers/ CEOs have signed performance agreements
3.8	Continuing with the implementation of the remuneration dispensation for medical professionals	Health	Ongoing	Occupation Specific Dispensation has been agreed to in Public Service Coordinating Bargaining Council. In September 2007 an agreement was signed in the council. An implementation workshop was also held with all stakeholders

Source: The South Africa Presidency (2007) *November 2007 Monitoring Report on the Programme of Action*, The Presidency, Pretoria.

Table 2.3.2: Medium-term spending priorities

2005/2006	2006/2007	2007/2008
• Increasing the rate of growth and productive investment • Promoting economic and social mobility, encouraging links between the first and second economies through employment and enterprise development • Social development, income support and mobilising human resources • Improving the state's capacity to promote growth, broaden development and combat crime • International relations for growth and development.	• Accelerating the pace of economic growth, and the rate of investment in productive capacity • Promoting opportunities for the participation of marginalised communities in economic activity, and improving the quality of the livelihoods of the poor • Maintaining a progressive social security net, alongside investment in community services and human development • Improving the capacity and effectiveness of the state, including combating crime and promoting service-oriented public administration • Building regional and international partnerships for growth and development.	• Accelerating the pace of economic growth, and the rate of investment in productive capacity • Advancing participation of the marginalised in economic activity through expanded job creation and the promotion of sustainable livelihoods • Maintaining and expanding a progressive social security net, alongside investment in community services and human development • Improving the capacity and effectiveness of the state, including combating crime and promoting service-oriented public administration • Building regional and international partnerships for growth and development.

Source: South African National Treasury: Budget Review 2005, 2006, 2007

is an important bridge between the political priority frameworks, policies and spending.

In addition, the Cabinet plays an important role in determining priorities. This, together with its strong link to the ruling party's electoral mandate document, promotes political accountability. The existence of a monitoring mechanism through the National Programme of Action reports – supplemented by an annual publication on the outcome status of national development objectives against each of the national departments and by spending reports – strengthens the link. The Cabinet takes the leading role in setting the policy agenda and linking policies to this agenda.

2.3.4 Key actors in linking policies to political priorities

The Cabinet is the key link between policies and political priorities. It establishes this link through direction of ministers' work agendas – based on proposals by individual ministers and political priorities – through setting policy and spending priorities, and through reviewing and approving the resulting policies.

The Ministers' Committee on the Budget, a standing Cabinet sub-committee, plays an important technical role in the translation of political priorities into policies, and policies into funded spending programmes, through its interrogation of and recommendations on fiscal and budget proposals.

Parliament's role lies primarily in its legislative function. Parliament legislates policies that require a legal framework. It fulfils this function through committees that review legislation provision by provision. The committees are organised as parliamentary counterparts to national departments and play an important role in facilitating national debate on the detail of policies as expressed in legislation, both directly through public hearings and indirectly through the media. Committee proceedings are open to the public. Parliament makes amendments to legislation or may send it back to the executive if it is not satisfied.

Within the executive cluster committees and ad hoc interdepartmental task teams or committees can have a significant impact on shaping policies. The clusters operate at both a political and operational level. At political level Cabinet cluster committees are organised along the lines of the five clusters. At the operational level the Forum of South African Directors General, a committee of the civil service head of departments, chaired by the civil service head of the presidency, reviews the work of departments in policy development, planning and implementation. The overarching committee has five sub-committees, also organised along the lines of government clusters.

2.3.5 The intergovernmental fiscal dimension

Before discussing the various ways in which policies can be introduced and formed, it is necessary to outline the intergovernmental dimension of political priorities and policy development.

South Africa is a unified state with three layers of government known as 'spheres'. National government has constitutional responsibility to develop policies with regard to its exclusive and shared spending competencies. Provincial and local governments are mandated to develop policies within their exclusive competencies and to implement national policies in their territories.

While the national sphere of government sets the policy agenda, provincial and local government are critical in implementation, particularly in some clusters, for example the social cluster. National legislation requires provincial and local governments to produce medium-term policy documents, called Provincial Growth and Development Strategies and local Integrated Development Plans respectively.

At the local level there is more policy independence, since there is access to sustainable own revenue sources. In contrast to provincial government, which receives more than 95 per cent of its revenue in transfers from national government, local government receives limited transfers from the national (and provincial) government to support national priorities.

2.3.6 Instruments and approaches to policy development

There are different routes to develop policies, some of which reflect the government's political priorities, and others that reflect other actors in the policy environment.

Within this environment, how government's political priorities are translated into policies depends significantly on the desired outcome.

There are a number of policy instruments in South Africa. The most formal one is used when policies are translated into legislation, for example the Child Justice Bill. A slightly less formal one is the publication of White Papers and strategies, which are Cabinet-approved documents detailing the context, evidence for development, intervention logic, objectives, strategies and actions that together form a policy. Examples of these are the National Housing Strategy or the White Paper on the Sustainable Use of South Africa's National Biodiversity. A third option is the publication of policy or intervention programme documents setting out a departmental policy or strategic programme of intervention – for example the Re Aga Boswa programme of court transformation of the Department of Justice and Constitutional Development, or the no-fee schools policy of the Department of Education.

Two significant national policy documents, which are in some respects framework policies, are the Growth, Employment and Redistribution (GEAR) policy, which was published in 1997, and the Accelerated and Shared Growth Initiative for South Africa (ASGI-SA, 2005). GEAR provided government's policy direction for macroeconomic and fiscal policy, while ASGI-SA represents a strategy to accelerate economic growth and broaden the scope of its beneficiaries. ASGI-SA responds to a range of constraints, including skills shortage and the challenges faced by small- medium- and micro-sized enterprises. It emphasises partnerships with business, labour and civil society. Selected interventions address challenges related to infrastructure, sector strategies, education and skills, the informal economy, public administration as well as macroeconomic issues.

The final 'umbrella' instruments of policy-making are the five-year strategic plans that departments develop. Like the MTSF, these are updated annually, but are not 'rolling' in the sense that they have a specific termination date. The strategic plans do not correspond to a narrowly defined policy issue, but rather reflect a more general level of policy in that they link political priorities to spending through the development of strategies for each spending programme. In the context of the CABRI seminar, strategic plans operate more or less at the next level of the policy–budget link: they translate policies into spending programmes. While acknowledging that as an instrument they have policy-like characteristics, this paper does not discuss their development in much detail.

A policy development process

There are interesting contrasts in the process of developing the first three policy instruments. Both legislation and White Papers follow more formal routes of development, which include extensive public consultation prior to submission to Cabinet and to Parliament. The more informal instruments of departmental policy, such as the court transformation programme above, may or may not include public consultation and are usually developed more as an exercise between senior bureaucrats within the department and the minister.

The executive in South Africa is organised into ministries and corresponding departments, with the former being the political executive and the latter the civil service. Ministries are usually relatively thin structures, while departments contain the technical policy development capacity. Departments usually do not have separate policy units: policy advice is the responsibility of the senior officials. If a policy is not the competence of a single branch of a department, inter-division task teams will co-ordinate co-operation among branches to develop policies. Departments operate under significant political oversight, particularly with regard to policies, where their work takes the form of policy advice.

Policy-making approaches

To understand how the national policy frameworks merge with other influences in the policy-making process, it is important to consider how different policies have developed.

A first approach is where the national strategic frameworks are given form through policy development – the focus of much of the discussion above on national policy framework instruments. An example of this is the current development of a comprehensive social security system policy, which is embedded in the national priorities, part of the Programme of Action for 2007 and co-ordinated through an interdepartmental structure, with technical work taking place in specific departments. A first paper of framework proposals for the policy was published with the budget documentation in February of 2007. Engagement and consultation with various structures, including National Economic Development and Labour Council (a body that brings together government, business and organised labour) is being done on the basis of the original documents.

A second approach is where policies mirror the developments already taking place in society. An example of this is where developments in the information technology environment of the banking sector were not adequately reflected in law.

Another approach that does not require much explanation is when existing policies are reviewed when they do not adequately address a key policy objective. An example of this is when changes are made to the driver license system due to a lack of progress in reducing road deaths. While consultation may be held with external stakeholders, it may be limited or at the discretion of the developing ministry and department.

A fourth approach for the development of policies may be lobbying. This is a good example of how the wider policy environment merges with the more formal government channels for policy initiation. For instance, a policy on the regulation of plastic bags resulted from lobbying by environmental groups.

Another route is through public support for policies that is expressed through civil society organs or the media. An example of this is the provision of antiretrovirals for people living with AIDS. The development and implementation of this policy was strengthened by court action.

A similar route is that of court action based on the Constitution. The Grootboom case is perhaps the best-known example of government policy being influenced by citizens claiming their rights in terms of the Constitution through court action (see box below).

A final route is through the deployment of public commissions that are appointed by the executive and charged with the investigation of a social problem and the proposal of policy options. An example of this is the introduction of a child support grant based on the proceedings and work of the Lund Commission into aspects of social welfare. One can see how initial policy agendas are shaped by factors in the policy environment by looking at this policy from concept to implementation. Resource constraints and trade-offs between options and constituencies, pressure from social groups, a nation's values, the difficulty of achieving synergy across sectors and how a policy's original intent can be strengthened or eroded in the space between formulation and implementation are all factors that feature here.[6]

From this brief discussion of the different routes policies follow from initiation to completion, it is clear that while there is a formal system of policy-development by the executive in place, in practice this is complemented by a diffuse and open environment for policy development. One can also argue that this openness is a key aspect of ensuring that policies remain responsive to the needs and interests of citizens between elections. Policy-making also does not take place without healthy debate, even if the explicit and structured consultation mechanisms that accompany Poverty Reduction Strategy Papers and the like are not present to the same degree for all policies.

Policy development is usually a very untidy process. It is not unknown for different departments involved in forming the same policy to publish different views on it through discussion documents. This takes healthy policy debate outside the executive into the public domain. One can argue that government should speak with one voice, but such an approach may keep debate behind closed doors and in the end stifle it.

The Bill of Rights and policy-making: The Grootboom case

Irene Grootboom lived in the Wallacedene, an information settlement in the municipality of Oosberg in the Western Cape. After a long struggle to obtain adequate housing which included being on housing lists without effect, being evicted from private property and setting up houses on a sports field and applying to the municipality for help, the community – under the name of 'Irene Grootboom and 900 others' – launched an urgent application in the Cape High Court. The Grootboom community based their case on two constitutional provisions:

1. Section 26 of the Constitution provides that everyone has a right of access to adequate housing. It obliges the state to take reasonable measures, within its available resources, to make sure that this right is realised progressively.
2. Section 28(1)(c) says that children have a right to shelter.

The Cape High Court rejected the first argument. It said that government's housing programme was reasonable and thus fulfilled the requirements of the Constitution. In terms of the second argument, the court said that parents are primarily responsible to provide shelter for their children. If, however, they are unable to do this, section 28(1)(c) places an obligation on the state to do so. Further, the court found that the parents should be able to live with their children in the shelter as it was not in the best interests of children to be separated from their families. Government took the decision of the High Court on appeal to the Constitutional Court. The Constitutional Court affirmed that national government bears the overall responsibility for ensuring that the state complies with its section 26 obligations. It further found that:

- The current housing programme fell short of the state obligation to provide relief to people in desperate need. It said that a reasonable part of the national housing budget should be devoted to providing such relief. If this was not done, the state's housing programme could not be considered reasonable for the purposes of section 26(2).
- The state's direct obligation would apply primarily when children were removed from their families, orphaned or abandoned.

The Constitutional Court also recognised the close relationship between the right to equality and socioeconomic rights, including housing rights. It noted that the realisation of socioeconomic rights is key to the advancement of equality and the development of a society in which both men and women are equally able to fulfil their potential.

Pillay, K, R Manjoo and E Paulus (2002) *The Grootboom Case and Women's Housing Rights, Budget Brief 11,* Idasa, Cape Town.

2.3.7 What is the role of senior budget officials?

Within the context of CABRI a final question to ask is what role senior budget officials play in this environment. The National Treasury has financial oversight over organs of state in all spheres of government. In addition, the National Treasury has a critical role to play in ensuring value for money throughout state organs, which pushes its mandate into the policy-making sphere.

It fulfils this role by issuing guidelines to departments for the translation of policies into spending programmes and plans, and through managing the budget process and its internal engagement with budget proposals and requests.

When a new policy comes to the National Treasury it will consider a number of key questions, such as: How sound is the plan? How accurate is the costing? What is the capacity of the department in question to implement the policy over the medium term? Are there alternative ways to achieve the objectives of the policy? What are the opportunity costs in terms of other policies (or fiscal policy) of funding a policy? What direct impact is expected on the overall macroeconomic and policy environment?

Senior budget officials play a key role in this process, and are centrally engaged in linking government's policy agendas with the proposed policies and financial implications. To this task they bring their knowledge of a department's history and capacity, insights that come from having a cross-government view on the policy environment and government's activities, and technical expertise in policy evaluation. In some cases the National Treasury is the driver of policy changes; this is particularly true for policies that affect the financial sector, or management of the public finances.

Through the Minister of Finance's role in Cabinet, the director-general's role in the Forum of South African Directors General, and other senior officials' roles in inter-departmental co-ordination of policies, or more informal engagement with other departments, senior officials also provide advice from a value-for-money and fiscal perspective on other government policies long before the policies come to fruition through requests for funding.

2.3.8 Conclusion: lessons and the challenges ahead

While our review of mechanisms for translating policy agendas into policies pays some attention to how complex the process can become, it does not describe in detail the challenges that arise from this environment and the processes themselves.

This paper briefly acknowledges these challenges:

- Alignment and co-ordination of policy priorities between national, provincial and local government must be improved. As in all shared responsibility arrangements, intergovernmental affairs easily fall prey to finger-pointing by various actors when key development challenges are not addressed. Despite political coherence across most layers of government (the ANC is the government in most jurisdictions) and significant process and structure mechanisms for co-ordination (see the case study by Fölscher and Cole on South African budget reform in the 2004 Annual Seminar Resource Volume) there is not always policy alignment and alignment of spending with policies.

- It is not unheard of for spending agencies to develop and implement new policies in order to receive additional funds. While each policy can be justified in isolation, it is not always clear that all new funded policies are priorities.
- There is a lack of capacity across government to evaluate policies for funding purposes, and to evaluate initiatives for policies against departments' mandates.
- Priorities, policies and funding are not always considered with a long-term view.
- The system does not yet make adequate use of performance information (in some cases the information itself is inadequate) or an effective monitoring system, despite significant advances over the past year.
- There is no formal evaluation mechanism, such as a public expenditure review, in the budget system. While the budget process itself is supposed to include evaluation and review, it is already congested.
- The South African public domain is full of policies that have been approved by the Cabinet, even legislated for, but which have remained largely unimplemented. The capacity to implement is often lacking – something that could even be called a bureaucratic failure (rather than policy failure) of the government.
- Consultation remains inadequate. While the vibrant public space is healthy – and works – it cannot really substitute for formal mechanisms of consultation and feedback. These are present, but not adequately developed.

As remarked earlier, the South African policy environment differs from that of other CABRI member countries. In conclusion it is perhaps useful to consider what insights on the nature of policy-making can be drawn from the different approach: a first lesson is that the rolling nature of key policy instruments acknowledges that policy-making is an iterative process, often based on experimentation, learning from mistakes and adjusting (see also Institute of Development Studies, 2006, for a discussion of these points). Consistency between years is facilitated by the close link between policies and the resource framework, through the MTEF and the Programme of Action.

However, flexibility is allowed to adjust for new challenges arising from a fast-changing local and international environment and for new political priorities. The interface between the different strategic and funding instruments on a rolling basis means that the on-going nature of policy development is acknowledged. However, the need for budget discipline requires that new policy proposals or changes to existing policies feed into the budget process at particular points to be funded as part of the MTEF. Given that policy-making does not always follow a neatly timed, linear process, budget officials can come under a lot of pressure to fund additions to baselines for which the planning have not complied with budget process timelines. It is in these cases that another feature of the South African system comes to the fore: the Ministers' Committee on the Budget has a critical role to play in managing the process of last minute proposals and associated requests for funding.

This explicit and continuous interface between the political and the technical at every level of the process acknowledges that policy-making has to be as much a political process as a technical one and that decisions are not ever entirely technical and detached from political choices: facts and values are intertwined. But this also means that there are always overlapping and competing agendas: the policy-making process has to be open to the larger policy environment. However, this has to be transparent and participatory, particularly since policies ultimately include some perspectives at the expense of others.

References

Institute of Development Studies (2006) *Understanding policy processes: A review of IDS research on the environment*, Brighton: IDS.

Endnotes to Chapter 2

1 The opinions expressed in this document do not necessarily reflect the views of the institution to which the authors belong.

2 *Plano de Acção para a Redução da Pobreza Absoluta*.

3 Well-being survey – 2002/2003

4 The authors would like to thank Kay Brown, Alexandra Bytchkova, Julia de Bruyn, Kuben Naidoo and Aarti Shah for their contributions and comments.

5 *Lekgotla* is Tswana for meeting or conference; *makgotla* is the plural.

6 Lund, F (2008) *Changing Social Policy: The Child Support Grant in South Africa*. Pretoria: HSRC Press.

3

Designing programmes to achieve sound policy objectives

3.1 Introduction

The existence of clear policies, with feasible objectives and strategies to achieve those objectives, is not a guarantee that spending patterns will change to achieve policy goals. To bridge the divide between strategic policies and the allocation of government resources through financial programming, budgeting needs to be aligned to programmes.

Success becomes more likely when there is common knowledge within and outside of government about key policies, their associated goals and objectives, and how these will be achieved by programmes and their outputs. It is at the stage of translating policies into spending programmes where the interface between policies and budgets is most apparent.

A programme budget, built up from ministries' individual spending programmes, is a prerequisite for this clarity. A spending programme consists of a specific, time-bound and costed set of activities undertaken to achieve a common policy objective. Representing expenditure according to programmes helps to focus thinking about public spending on objectives, activities and outputs. Budgeting by programmes can also facilitate budget analysis, especially if programmes are defined in a clear and simple manner.

This chapter is built around the inputs for the seminar session on translating policies into programmes. The presentations and discussion highlighted the various ways in which programmes are designed, and their links to the budget process.

The chapter includes three contributions. The first paper, by Simon Stone, a consultant who is implementing programme budgeting in a medium-term expenditure framework context in Albania, focuses on the fundamentals of constructing spending programmes so that they are vehicles for policy implementation. He discusses common problems in developing a programme structure, from distinguishing between different levels of objectives to linking the structure to performance accountability and the administrative structure.

The second paper, by Nicholas Ntambi of the Ministry of Finance of Tanzania, sets out how the strategic budget allocation system facilitates linking poverty-reduction strategy priorities to spending. The paper explains how this link is supported by a strategic focus on the budget process as a policy-oriented and inclusive decision-making vehicle.

The third paper, by Mathew Dingie, Budget Director in Sierra Leone, discusses how, in a post-war environment, a programme budget is only an effective vehicle when supported by complementary reforms. These include strengthening the policy function, getting the budget basics right, implementing sound financial management and setting up a good monitoring and evaluation system. The paper draws on specifics from the monitoring system, showing how a check on policy achievements is linked to activities and spending.

3.2 Designing programmes for budgeting

Simon Stone

3.2.1 Introduction

This paper addresses issues that arise in designing programmes for budgeting.

There is extensive literature on programme budgeting and programme performance budgeting. Diamond[1] provides a useful description of the new performance budgeting model, describing its development from 'planning, programming and budgeting systems', to 'programme budgeting' and then 'output budgeting'. He identifies four major reform elements needed to convert traditional budgeting systems to this approach:

- Setting the programme structure in the wider context of strategic budget planning and medium-term budget frameworks.
- Redesigning and refining programme structures.
- Improving budget costing systems.
- Introducing a new system of accountability and budget incentives.

This paper focuses on the second reform element. It shows that the four reform elements are closely interlinked and must all be addressed when designing a new system, even if they are not implemented concurrently.

This practical approach needs to be explicit in terminology used, but in being categorical and prescriptive we need to observe some caveats. Most international public finance literature is written in English. To avoid confusion for readers whose first language is not English, this paper uses a tightly defined terminology that may prove difficult to translate.

The logic of the approach is highly linear and appears technocratic. In practice, budgeting processes are often non-linear because budgets are policy, and policy makers think and act in non-linear ways. Yet, the underlying process can be presented as linear, which allows for necessary – as well as technically unnecessary but politically expedient – feedback or iterations, both within and between budget cycles.

The paper shows that when choice of terms is considered in the accountability system, apparently prescriptive terms for performance indicators can simply collapse to labels such as 'level 1' and 'level 2' and be labelled according to national context or preference.

This paper also takes account of the practical challenges that arise when information technology is used for programme budgeting across the whole of government, and notes that software design to support this approach should be carefully planned.

3.2.2 Elements of a programme performance budget

The programme budget should contain expenditure programmes.[2] Each programme should have a name, a description and a policy for which the following performance indicators can be set:

- programme policy goals;
- programme policy objectives;
- programme outputs;
- programme activities; and
- programme inputs.

An *expenditure programme* can be defined as a meaningful and manageable set of *activities*, with *outputs* that contribute directly or indirectly (as *inputs* to other activities) to the achievement of *policy objectives* and *policy goals*. What this means will vary according to context and over time. Some of the contextual issues are discussed below in relation to the number and size of programmes. The programme structure will also vary as policy focus evolves or changes.

The programme name is simply a label used for reference: for example, primary education, air defence, maternal health care or national parks. The description should describe what the programme does in simple terms that non-specialists can understand to ensure that government activity is transparent for a wider audience. A short paragraph should suffice. Transparency within government is an important objective, and an additional benefit of this approach is to ensure that programmes are complementary and do not overlap. A programme budget could comprise more than 100 programmes for which brief descriptions are required.

It is important to have a separate description of the programme policy. A programme policy means the policy that the programme is implementing, not a statement of what the programme does.[3] The policy description should be a succinct and clear presentation of the policy that the programme is implementing: for example, a primary education policy or a road safety policy. Brevity is important for wider transparency. It is also helpful for setting the overall structure of programmes in the budget and particularly in the design of each programme. Practice shows that it is often more challenging to be succinct in a policy description than to write out a policy document. A policy document should exist, of course, but presenting the policy in a paragraph forces attention on the essence of the policy.

The programme policy goals and programme policy objectives serve as performance indicators, as discussed more fully below. They both form part of the presentation of the programme. It should be possible, and is certainly desirable, for transparency and accessibility when presenting a large number of programmes, to set out a programme policy statement that includes the programme name, description, policy description and the programme goals and objectives on one page.

Programme policy goals are the desired, measurable results from the programme activities that the government wishes to achieve in the long term.

A good example of a programme policy goal would be one of the Millennium Development Goals (MDGs) – for example, in maternal health, 'to reduce by three-quarters the maternal mortality ratio by 2015'. This summary headline form is not adequate for programme budgeting purposes. To make this goal operational and measurable for programme budgeting, the summary statement of the goal needs to be enhanced by a reference to a baseline, for instance 'to reduce by three-quarters the maternal mortality ratio by 2015 from the level of *x* in 1990'. This may seem obvious, and is certainly what is intended in the MDG, but unless it is spelt out problems will arise in setting and using the other performance indicators.

Programme policy objectives are specific results from programme activities that can be measured precisely in terms of time, number and cost, that can be accomplished in the short- to medium-term and that are intermediate steps in achieving a policy goal.

Extending the maternal health example for a three-year medium-term budget framework, the programme policy objectives set in year t for year $t+3$ might be 'maternal mortality ratio to be reduced to z in $t+3$'. This approach is consistent with the goal, but may not be a good objective as maternal mortality may depend on factors beyond the influence of government. This is the standard problem with a goal that is defined in an 'outcome' style. Because the goal is a long-term one it does not have to be operationally prescriptive.

For programme performance budgeting, however, a more operational approach is required because the performance focus sharpens as it moves down the performance indicator hierarchy. This should be clear from the process of designing a programme explained in this section. It is even clearer when accountability for programme performance is considered. Often first design attempts produce a programme in which the performance indicators are pushed down one level, so that output information becomes hidden in activity descriptions. This happens where the objectives are not clearly set up.

The beginnings of a more operational objective might be 'provision of maternal health care services increased from y in $t+2$ to z in $t+3$'. Although more operational, this is not precisely measurable as required without further explanation of what 'provision' means. Is it 'availability' or 'take-up'? Precise measurement also requires some explanation of what maternal health care services are. This could be done in the maternal health policy description, but the need for brevity might make this difficult. It is often useful in practice to supplement the programme policy statement with a short presentation of the policy standards: in this example, for instance, it could be a description of the content of the maternal health care service package, or reference to another publicly available document.

Programme outputs are the goods and services to be produced to contribute to the achievement of short- to medium-term policy objectives and the longer-term policy goal. Outputs should be specific, measurable, achievable, realistic and time-bound (SMART). There may be one or more outputs contributing to one or more programme policy objectives.

The operational issue in the setting of programme performance indicators becomes clearer when outputs are considered. It is easier and operationally more meaningful to set outputs that enable the services to be delivered or provided than in terms of service delivery/provision, which is better dealt with in terms of the programme objective. So maternal health care outputs should be written as: 'x birth attendants trained'; 'the number of fully equipped maternal health care units increased from x to y'; 'n new maternal health care training facilities staffed and equipped', for example.

Activities are the things that are done (processes) to produce an output. There may be several activities for each output. These should be written as 'five training programmes for birth attendants in regions *a*, *b*, *c*, *d*, and *e*', 'purchase of maternal health care equipment', and 'construction of maternal health care training facility', for example.

Inputs are the financial, human and physical resources used (by activities) to produce (programme) outputs. For example, subsistence allowances for birth attendants on training programmes, birth attendant trainers, or training materials. When inputs are calculated in financial terms they are presented as items of expenditure in the line item budget.

The terms used above are presented with a production-function style: inputs used in (activities and) processes produce outputs, which when combined achieve a series of objectives that meet a goal. There are many things that governments do that are intangible or are continuing processes that appear not to fit into this production-function style. Nevertheless, the approach can be used to fit most government activities if used flexibly to measure how an organisation performs in terms of programme delivery, and in particular how policy and technical managers can be held to account for performance over time.

Performance indicators are mutually dependent in both a top-down and bottom-up direction (see Figure 3.2.1). From the top down, the programme policy objectives are dependent on the programme policy goal (and the chosen time and path for achieving this goal). The choice of programme outputs depends on the programme policy objectives. The design and scale of activities to deliver programme outputs depends on the nature of the outputs and output targets. The inputs depend on activity design and scale. The top-down relationship gives policy guidance to all the performance indicators, both policy and technical.

From the bottom up, activities require inputs, even if it is only in the form of a few hours of staff time, but may involve capital expenditure and operational materials. The delivery of outputs depends on successful and timely completion of activities. Timely achievement of the programme policy objectives requires the timely delivery of the programme outputs. The achievement of the programme policy goal will depend in part on the achievement of programme policy objectives. The bottom-up relationship gives technical and financial[4] feasibility guidance to both technical and policy performance indicators.

Beyond this ‘minimum’ a programme budget might contain *subprogrammes* and *projects*. Table 3.2.1 illustrates how a primary education programme may be unpacked: the feasibility (or not) of the programme policy goal and objectives becomes apparent when it is broken down into outputs, activities (with timelines) and inputs.

Figure 3.2.1: Well-defined programmes help match priorities with resource constraints

	Top down	*Bottom up*
Expenditure ceiling	Strategic choice	Operational choice
Goals		
Objectives		
Outputs	Desired	Feasible, affordable
Activities		
Inputs		

Going beyond the minimum requirements should be considered carefully when first embarking on a conversion to programme budgeting. The reasons for this bring us back to the unexplained elements of an expenditure programme definition: what do 'meaningful' and 'manageable' actually mean in practice? Before addressing this in the context of the structure and size of a programme performance budget in section 4, it is useful first to consider some accountability issues in having a programme performance budget.

3.2.3 Accountability in a programme performance budget

The basis of accountability is measuring programme performance against the target values set for programme policy goals, policy objectives and outputs. For activities, measurement is not of particular importance outside the ministry that manages them, so there is no need for more than a qualitative assessment of how the activity was undertaken and whether it was started and completed on time – something undertaken as part of routine internal management processes. For inputs, the primary means of measuring performance is financial – whether or not actual expenditure on inputs (articles of expenditure) exceeded the budget for those items. Of course, once the actual-against-budget assessment at the input level is made it can also be made at the activity and output levels.

Comparing targets against results is one aspect of performance. A more sophisticated approach is performance assessment using techniques such as value-for-money assessments and audits. Value for money means economy, efficiency, effectiveness and respect for due process. To assess whether value for money has been achieved, the performance indicators for inputs, activities, outputs and policy objectives need to be considered together.

The five programme performance indicators can be split into two groups:

Table 3.2.1: An illustration of a fully described programme

1. PROGRAMME NAME	2. PRIMARY EDUCATION
Description	Delivery of primary education services
Policy	The provision of universal free primary education
Policy goal (Level 1 result)	From 2015 all people turning 18 must have completed seven years of primary schooling
Policy objectives (Level 2 result)	Proportion of primary school age children enrolled increased to 81% from 80% in current year and by two percentage points per year to reach 85% by 2010 (end of medium-term period) Proportion of primary school age children with access to primary schools within 10 km increased to 77% from 75% in the current year, and to 80% in 2009 and 85% by 2010 Proportion of children in primary schools repeating a year reduced to 8% from 10% in current year, to 6% in 2009 and to 4% by 2010
Outputs (Level 3 result) The SMART indicator	An additional 300 schools built, equipped and staffed with at least seven classrooms and an office block with ablution facilities at the start of the school year for each of the outer two years of the medium-term 2008–2010 An additional number of textbooks printed and distributed to primary schools so that the textbook to child ratio reduces from 1:5 to 1:3 in the current year and to 1:1 by 2010
Activities (Level 4 process results – not SMART indicators but timely and complete achievement of an activity within budget can be used as a performance indicator)	Identify sites and undertake planning process (completed first quarter 2008) Procure architectural services and complete design (completed mid-2008) Procure building contractors and service providers and build schools (first 300 completed by start of academic year 2008) Procure furniture and other equipment (completed mid-2008 for delivery before academic year 2009) Undertake availability of personnel audit and develop strategies for provision of teachers (completed end 2008) Undertake text book survey to identify under and over supply (completed start of second quarter 2008) Procure additional textbooks (mid-2008 for delivery 2009)
Inputs (Level 5 resource use)	Personnel time, travel and subsistence, office goods, transport, etc. Resources for procurement of goods and services

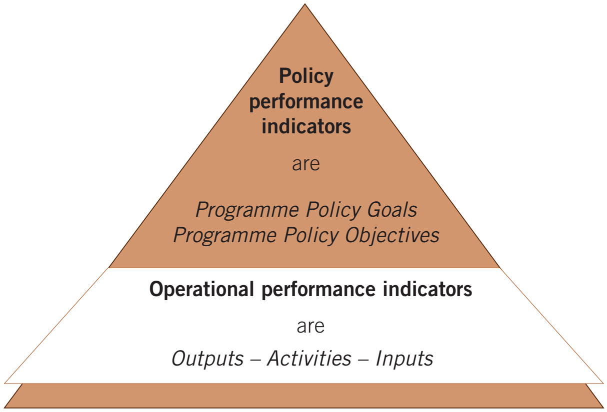
policy and technical (or operational). The distinction is useful when considering accountability.

Before considering how accountability for programme performance should work, it is useful to consider who is responsible for choosing and specifying programme performance indicators and setting targets for the indicators, and how this is done.

Programme policy goals are policy indicators and so should be set by ministers. These goals may come from the government programme, an approved sector or cross-cutting strategy, or new policy initiatives of the minister.

Programme policy objectives are also policy indicators and depend on the

Figure 3.2.2: Distinguishing between policy and operational performance indicators



programme policy goal in the top-down relationship, so they are also the responsibility of the minister. They should be set in consultation with the ministry technical staff (in practice with the civil service head of organisation).

Programme outputs are the responsibility of the ministry technical staff and are set in consultation with the minister. The consultation between the political level and the technical level in setting programme policy objectives and programme outputs is the area where the responsibilities of the minister and the technical staff overlap. Both the ministers and the technical staff need to be sure that the outputs will contribute effectively to the achievement of these objectives so that each have confidence that they can account for their performance.

Programme activities are designed by the technical staff and agreed on with the civil service head of organisation. Again, the head of organisation needs to be sure that the activities will result in the delivery of the programme outputs, delivery of which he/she is accountable for.

Inputs are selected by the technical staff and agreed with the civil service head of organisation.

Accountability for policy-makers

Ministers are accountable to the head of the executive (a president or a prime minister), cabinet (or the council of ministers) and the legislature for the delivery of programme policy goals. This accountability is notional, because it is unlikely that a minister can be held meaningfully to account in 2015 for the maternal mortality ratio that year. Nonetheless, programme policy goals must be set to ensure policy relevance and for the accountability mechanisms for other performance indicators to operate. So the programme policy goals should be formally presented for approval to the cabinet as part of a programme policy statement signed by the minister. This provides for accountability.

In a programme performance budget system the programme policy statement is of key relevance to the budget approval by the legislature, so the statement must also be presented there (as part of the budget documentation) and becomes a public document permitting broader policy accountability to the public.

Ministers are also accountable to the executive, the cabinet and the legislature for the delivery of programme policy objectives. This accountability is much more meaningful and it puts into sharp focus the reasons for avoiding outcome-style objectives. If the maternal health care objective is put in terms of a target of reduction of a maternal mortality ratio to a certain level at a point in time, the target can be expressed in terms of number of maternal deaths in that year. Who would wish to be held accountable for such a starkly expressed outcome? A minister is much more likely to accept accountability for the more operational objective of service provision such as proportion of births attended by a qualified birth attendant.

Accountability for managers and technical staff

Technical staff are accountable in different ways for the delivery of outputs, the timely fulfilment of activities and the proper use of inputs.

For delivery of outputs, technical staff are accountable, through the civil service head of the organisation (for example a permanent secretary), to the minister. (Technical staff are also held accountable by the finance ministry and the legislature for the achievement of another aspect of performance measurement – value for money.) Output setting is, as mentioned, a consultative process between policy-makers and technical staffs. A minister should be confident that the outputs to be delivered are sufficient to meet the policy objective.

Accountability for activities is broader. These are tasks that can be performed in various ways by a variety of people within the technical staff. There is a hierarchy of accountability of technical staff for the completion of activities to their respective line managers, which ends ultimately with the civil service head of organisation.

Input accountability for technical staff operates in three ways: within the organisation, using the inputs in a similar hierarchy to that for activities; between the organisation and the finance ministry in respect of the cost of inputs purchased relative to the budget and the requirement to ensure value for money; and between the civil service head of organisation and the legislature.

The five levels of accountability in this approach make it possible to address the problem of terminology of goals, objectives and outputs. These terms on their own will mean different things to different readers. It is not immediately obvious what the difference is between a goal and an objective, and indeed between a goal and a target in some cases. However, the accountability hierarchy is constructed around a number of levels. If it is inconvenient for readers to use the terms presented here, they can simply be labelled 'level 1 performance indicator', 'level 2 performance indicator', and so on, because at least this minimum set of indicators must exist if the accountability system is going to work to support a programme performance budgeting approach.

3.2.4 Structure of a programme performance budget

One obvious question to ask when embarking on conversion to a programme approach to budgeting is how many programmes there should be. The trite but true answer is the same as for administrative entities: as few as possible and as many as necessary. How many are necessary? Ultimately this depends on the country context.

Certain universal issues, however, should be taken into account in all cases. A good starting point is to consider how a programme budget can fit (or replace) existing budget classifications. That provides a basis for considering in more detail what 'meaningful' and 'manageable' mean. 'Meaningful' is a policy consideration and may take account of effectiveness considerations; 'manageable' is a size and efficiency consideration. These may conflict in some circumstances.

Existing approaches to budgeting have resulted in three types of budget classification: economic, administrative and functional. The functional classification considered here is the International Standard Classification of the Functions of Government (COFOG).

A programme classification of the budget is consistent with the economic classification of a budget, because the smallest element of a programme is an input that can be represented as an item of expenditure. Consistency with administrative and functional classifications is not so immediately obvious. There are the narrow practical issues of budget coding and broader issues of managerial responsibility and accountability that should be considered.

Budget coding issues are straightforward when programmes fit neatly into existing administrative and functional classifications. The programme code in the chart of accounts can come beneath the code for the administrative unit. But this is often not the case for administrative classifications when programme budgeting is initially adopted.[5]

The coding issue becomes complicated when the activities of a programme use resources from more than one component of an administrative (or functional) classification. The degree of complexity is greatest in the administrative case where a programme activity is jointly undertaken by more than one ministry, department or agency (MDA) using financial resources from each of the participating MDAs. For the coding of the chart of accounts to accommodate such jointly financed activities, the administrative code should come above the level of input and below that of activity. This in effect puts the programme classification 'above' the administrative classification. It is tempting to try to simplify things a bit and adopt an alternative approach where the joint activity is split into separate activities, pushing the administrative code up the coding hierarchy to above activities and below outputs. The question then arises of whether the output can be split into parts – and subsequently whether the programme policy objective, policy goal and the policy itself are split into parts. This is the difficulty faced by the first attempts at programme budgeting in the United States.

In practice this indicates that the activities of different MDAs are potentially complementary.

The question then arises of whether the existing administrative structure can and should be changed. There is typically a resistance to changing administrative structures – not only because people often feel challenged by change, but also because there are often real and significant costs involved. Yet administrative structures do change, even without conversion to programme budgeting, as a result of adjustments in the focus of policy and other considerations. It is inevitable that introducing a programme structure will result in a change in the administrative structure at some point. When administrative structures do change the need for inter-ministerial consultative activities may initially reduce, but does not disappear.

In terms of the fit between programmes and the functions of government similar issues arise, but there is less flexibility in the functions of government than there is in the administrative structure, because functional classifications such as COFOG are an international standard. COFOG essentially standardises the operations of government into a one-size-should-fit-all approach, and does address the issue of how to make international comparisons of government expenditure when the structures of MDAs vary across governments. If all governments organised themselves according to COFOG there would not be an issue of consistency between administrative and functional classifications.

Consider the example of health care. Most countries will have primary health care programmes and secondary health care programmes. Where should maternal health care fit in? Where maternal health care is exclusively hospital-based it is likely to be part of a secondary health care programme. If it is primarily (aside from emergency referral) based in local health clinics it will be part of the primary health care programme. It may, of course, be both clinic- and hospital-based, and fall between the two. So there are different ways of managing maternal health care, largely determined by the nature of the care required – antenatal, birth assistance, postnatal care and how they are linked. Managerial considerations are likely to predominate in most cases.

The MDG for maternal health care brings in considerations of what is 'meaningful'. With maternal health care becoming one of the top 10 world development goals, the policy importance suddenly increases and the policy focus arguments for governments having a maternal health care programme separate from its primary health care and secondary health care programmes become stronger. It becomes 'meaningful' for there to be a separate maternal health care programme. Even so, unless the programme results in maternal health care delivery points that are distinct from other health care delivery points, the managerial issues will arise. There can still be a separate programme without such a distinction, but a new layer of managerial and performance accountability is introduced with the new programme, because for programme performance accountability to work well, someone (a programme manager) has to be accountable for programme output delivery to the administrative head of health policy implementation.

Another approach to the meaningful/manageable trade-off in the maternal health care example is to have maternal health care subprogrammes in each of the primary and secondary health care programmes. This may deal with the managerial accountability problem and allows for the creation of a 'virtual' maternal health care programme that can be used for reporting and accountability purposes (with two people accountable for mutually exclusive subsets of the maternal health care programme outputs).

It should be clear from the discussion above that programme structure and design is a matter of choice and making trade-offs. The complexity of the issues and the limited planning time available in a budget year mean that it is unlikely to be 'right' the first time.

Some caution should be taken with the introduction of subprogrammes. In practice they can proliferate quickly, especially when the issue of administrative structure adapting to programme budgeting is avoided. In effect subprogrammes become attached to existing departments or directorates. This can lead to subprogrammes taking on a life of their own and becoming treated like programmes rather than as part of programmes. This happens particularly when a subprogramme has a distinct programme policy objective ascribed exclusively to it. If that actually makes practical sense in policy, management and accountability terms, the subprogramme should be treated as a programme. Maternal health care is perhaps a case in point. This risk is best seen in the context of development projects, which in some ways are subprogrammes.

Subprogrammes, like projects, are simply convenient ways of grouping programme activities and managing the delivery of a subset of programme outputs. They add nothing of essence to programme content. The performance indicator for projects is the programme outputs that the project groups together.

Rather than asking whether a project has been successfully implemented, the more relevant question is: have the programme objectives been achieved as intended? If the answer is yes, this tells us that the supporting programme outputs were well conceived and have been successfully delivered.

Projects have an instrumental use where it is effective and efficient to manage a subset of programme outputs together, perhaps because the delivery is assured by a private contractor and it is sensible to procure delivery in that way; or where there is an informational need. This is best exemplified by foreign-financed projects.

Foreign financiers often wish to see that their money has delivered a particular set of outputs – for example, the rehabilitation of some schools. The project may not finance all school rehabilitation. Other outputs ('other schools rehabilitated') might be delivered using domestic money (financed under maintenance expenditure). So the project is only interesting because it is foreign-financed. For the government, the interest is not only in the outputs delivered by the project, but goes beyond the project to the whole school rehabilitation programme.

Having projects within programmes is probably unavoidable for any government and so the programme coding should allow for them. Subprogrammes too are likely to be necessary or desirable at some point. They should be avoided at the start of conversion because they proliferate quickly and, like administrative structures, become hard to close, crowding out expenditure discretion.

This section has sought to highlight some of the issues that managers and policy makers should consider in setting up a programme structure. It is by no means exhaustive. The key point is that programme structuring is a lengthy process that will continue over many years. The process of design is not just a technical one; it can only be a collaborative effort of the key actors involved in programme design.

The issues of classification require careful attention. However, budgets are structured and a government will always have to account for the use of money voted by the legislature. The chart of accounts is the organisational basis for such accounting (with or without a programme approach). Programmes add additional levels of accounting codes to bring in programmes, (and subprogrammes and projects), outputs and activities. In order to make accounting and reporting feasible, careful consideration should be given to information technology from the outset of conversion to a programme budgeting approach.

3.2.5 Some information technology considerations

Where relational databases for budget preparation and management software are used, the approach is linear. These systems can be provided as existing packages or developed for a new system. A number of factors are part of making that decision and these cannot be adequately covered in this paper. There are, however, important considerations to take into account regardless of the choice of software.

Crucially, the design of the programme approach should as far as possible be complete before software is written. Where this is not possible, additions to the system must be capable of being added on as modules as necessary.

Of equal importance is the need to avoid the system design being exclusively the work of budget managers in the finance ministry (or accountants from the accountant general's office) and software advisers. A team approach should be taken to managing the design that includes accountants, auditors, IT and budget managers in the finance ministry, and representatives of their equivalents in other MDAs and local governments. The national statistics office is often overlooked. The team leader should be the civil service head of the finance ministry. A good way to start is to design the reports from the system and see if they provide the information necessary for accountability.

3.2.6 Conclusion

Programme performance budgeting is effective when programme managers and policy-makers can be meaningfully and effectively held to account for performance. Effective accountability includes many things, but the most important for programme budgeting is that it ends up in continuous improvement in the delivery of services in line with government policy, within the constraints imposed by macro-fiscal stability.

The question that requires answering in the context of CABRI is how budget officials should engage with the conversion to a programme budget. If programmes are the vehicles through which policies can be translated into appropriate allocations and targets for performance, what are the tasks of the budget official in ensuring that this link is made?

A programme budget reform process

The first task occurs at a higher level, where officials need to provide direct input into the design of a reform process to introduce a programme classification into the budget and reconstruct the budget as a programme budget. We have already considered some technical and administrative issues. There are, however, a number of additional points to consider.

Programme budgets can be redundant unless there is a demand for performance accountability. While these budgets are good vehicles for translating policies into programmes and ultimately into spending, without performance accountability their effectiveness will be limited to plans and expectations, rather than extending to real impact through spending that takes close cognisance of policy. To create this demand the reform process requires champions of change and sponsors at the highest levels of the civil service and in cabinet.

A successful programme budget requires a strong policy process and a credible medium-term budget: if these instruments are weak a programme budget reform will succeed only with great difficulty. A common misconception is that a programme structure will 'rescue' a medium-term budgeting system that is not effective. It is important to understand that the purpose of a programme structure is to link policies to budgets, and to strengthen policy and operational accountability. This is only possible, however, if there is a credible budget process, a sound medium-term framework and strong financial accountability.

Furthermore, a programme budget needs to be integrated into the 'real' budget documentation, into effective management, financial and non-financial performance reporting and with feedback into the public expenditure cycle. Many governments attempt programme budgeting as a stand-alone exercise and are then surprised when the programme budget document itself becomes the 'end' of the programming process, rather than being a means to better budget performance. Finally, for programme performance budgeting to endure there must be a move from strong central direction to programme management autonomy. The speed with which that change can and should occur will depend on the quality of the programme design and the effectiveness of the performance accountability system.

Assessing programmes structures

The second task occurs at the level of assessing individual programme budgets and their associated proposed spending.

Implementing programme budgeting is tied to performance, which in public finance terms has multiple dimensions. These are usually referred to as effectiveness, efficiency, economy (the 'three Es') and respect for due process. Figure 3.2.3 illustrates how these concepts can work together to achieve a performance orientation.

Assuming that the finance ministry's responsibility in the budget process is to ensure value for money, how can it use programme structures to interrogate spending? There is a functional link between the hierarchical levels of a sound programme and the three Es, as illustrated in Figure 3.2.4. The shaded area on the right indicates the programme characteristics and performance indicators that would be relevant to an assessment of effectiveness. The shaded area in the efficiency column indicates indicators that would be relevant for an assessment of efficiency and the block in the column to the left, for an assessment of economy.

In assessing value for money the three Es should be considered together. Economy is about keeping the input cost low, but low quality and therefore cheaper inputs may compromise efficiency and effectiveness. Efficiency is about the best technical way of doing something (the relationship between inputs, activities and outputs) and this may require better quality and hence more expensive inputs than a pure economy assessment would imply. Effectiveness is about the objectives achieved (the relationship between activities, outputs and objectives) a more sophisticated delivery process may appear to deliver the best result, but may not be the most efficient and will certainly be 'expensive'.

In any one year, it may not be feasible for budget officials to provide a full value for money assessment of all programmes: economy may be the first consideration with efficiency and effectiveness considerations assumed to be acceptable and further, more formal assessments to be coming later.

Figure 3.2.3: The three Es

ECONOMY *Spending less*	*Description:* Minimising the financial cost of resources used or required. *Key questions:* Are means chosen most economical use of resources? Have human, financial and material resources been used economically? Is management of programme in line with sound administration and management? **Economy is about keeping the cost low.**
EFFICIENCY *Spending wisely*	*Description:* Relationship between outputs and the goods, services and resources used to produce them. *Key questions:* Can I produce more from given resources? Can I use less resources for a level of outputs? **Efficiency is about the technical process of service delivery.**
EFFECTIVENESS *Spending appropriately*	*Description:* Relationship between intended and achieved results of public spending. *Key questions:* Are aims being met by the means employed, outputs produced and outcomes achieved? Are the impacts really result of policy rather than other circumstances? **Effectiveness is about results (objectives achieved) and assessment depends on programme design and clear, concrete policy goals and objectives.**

Source: Fölscher A (2007) *Performance Audits in the Public Sector*, Presentation at the CABRI/WBI training seminar on Public Financial Management, Pretoria, June 2007.

Value for money assessments should feed back into improvements in programme design. It is important to note that budget officials are not responsible for maximising value for money. It is the direct responsibility of the minister, head of organisation, and the programme manager to ensure that the programme design will deliver value for money, after all it is they who are accountable. The role of the budget official is to promote value for money through the "challenge function" of the Ministry of Finance acting for and on behalf of the cabinet. The challenge function involves asking questions about programme design: before the budget is presented for approval, during execution (if necessary) and after implementation. In practice, the budget official is most effective when programmes are badly presented, but their impact is limited unless and until the higher level elements are set clearly. This is illustrated in Figure 3.2.5.

The diagram shows the sort of questions a budget official can ask of each level of a badly presented programme. If goals and objectives are poor, the budget official can only 'complain' that they do not provide transparency on likely effectiveness. If the output-activity relationship is weak the budget official can pose 'critical' questions. If the input levels are excessive or value for money is not evident, the budget official can 'advise' a programme manager how to address the problem.

It is clear that the shift to a programme budget requires significant analytical capacity in ministries and at the centre of government. A final question worth considering is whether a programme budget reform is the type that should be implemented in one step across government to a significant depth, or whether it could be either piloted or implemented in a weak form – for example, without an explicit performance orientation.

Figure 3.2.4: Value for money, the three Es and programme structures

	Economy	Efficiency	Effectiveness
Goals			
Objectives			
Outputs			
Activities			
Inputs			

One can postulate two objectives of introducing programmes into the budget structure: first to ensure that better links can be made from policies to spending. Programmes are ideal for this because they relate to specific policies and use the first and second level goals of the policies to develop a full programme structure. Second, programmes are essential for clear accountability of public officials and office holders.

This paper has argued that the very essence of a programme requires it to be designed with a performance orientation. Furthermore, weak performance accountability will undermine in practice whether programmes assist in translating policies into spending. These arguments point to the need to implement proper programme performance budgets, strengthening the structure and process over several budget cycles, initially in a select number of ministries, preferably those with a good fit to generic functions of government that are readily presentable in the production function style, leaving other less specific functions for later. The experience of the pilot ministries and the demonstration effect is essential for continuous improvement to the quality of a programme budget.

Figure 3.2.5: The finance ministry and a badly presented programme

A budget official can...	Complain	Critique	Advise
Goals			
Objectives			
Outputs			
Activities			
Inputs			
VFM			

3.3 Strengthening policy and budget linkage in Tanzania through the strategic budget allocation system

Nicholas Ntambi

3.3.1 Introduction

Since the late 1990s the government of Tanzania has taken various steps to improve resource management and public service delivery. These reforms included the introduction of strategic planning, a medium-term expenditure framework (MTEF) and public expenditure reviews. Tanzania also developed and implemented a poverty reduction strategy from 2000/2001 to 2002/2003. This 'first generation' strategy was followed by the National Strategy for Growth and Reduction of Poverty (NSGRP), commonly known as MKUKUTA, from 2005/2006.

These initiatives, which closely affect planning, budgeting, monitoring and evaluation, are led by different ministries. The package of reforms is a significant step towards ensuring consistency in policies and budgetary provisions, strengthening the budget process by facilitating monitoring and making the process more oriented to outcomes.

As the government began implementing NSGRP, the biggest challenge that emerged was how to co-ordinate and provide adequate funding between complex cross-sectoral policy initiatives and budget activities.

To this end the government introduced improvements to the budget preparation process for 2005/2006, with further refinements in 2006/2007. These included:

- Explicitly placing the budget process at the heart of an annual integration of strategy, sectoral policy development, resource allocation and monitoring and evaluation.
- Moulding the *Budget Guidelines* document into the central budget strategy document.
- Streamlining the process – which includes multiple actors, structures and review instruments – into a more coherent and integrated activity to reduce transaction costs. This included integrating planning for development partner support and dialogue with domestic policy development and resource allocation; restructuring dialogue groups and decision-making bodies to align with the NSGRP clusters and to facilitate cross-cutting decision-making; and reducing the number of analysis and review instruments.
- Strengthening the involvement of domestic stakeholders in budget preparation.
- Working towards interfacing expenditure classification from the outcome-oriented categories of the NSGRP, through the MTEF classification, to the chart of accounts budget and accounting classifications of the Integrated Financial Management System (IFMS).
- Creating information technology tools at micro and macro level to assist in the management of financial information (linked to non-financial information).

The improvement of the strategic budget allocation process is a work in progress. Most of the interventions described above involve learning by doing, and making adjustments as problems are encountered. The overall initiative is based on two principles. Firstly, that the budget process provides a very important, annual and fixed cycle of review and decision-making that is the key vehicle not only for resource allocation, but also for the design of operational policies and dialogue. Secondly, that this process belongs not to the Ministry of Finance, but to all of the government and the people of Tanzania.

This paper provides a discussion of these reforms through the lens of one of the interventions – the Strategic Budget Allocation System (SBAS), a software tool that enables government at micro (ministry, department and agency [MDA]) and macro (centre of government) levels to pool and aggregate allocation information and analyse proposed allocations from various perspectives, including against non-financial outcome categories.

The SBAS was introduced as the Tanzanian government was taking steps to use the NSGRP more effectively for the reprioritisation of available financing (domestic and foreign) towards agreed national objectives. In keeping with the efforts of other countries to tag expenditures that contribute to poverty-reduction (for example, the Poverty Action Fund in Uganda and the identification of priority poverty expenditures in Kenya), the government introduced the SBAS database for the 2005/2006 budget preparation. The database allows MDAs to compile their budgets while identifying how blocks of spending relate to national (NSGRP) and/or sector objectives. MDAs are required to enter all their spending into their micro database, from where it is exported to the pooled national (or macro) database appropriately tagged. This allows the Ministry of Finance easy access to aggregate information, for example on how different NSGRP objectives are supported in sum across MDAs. It also forces MDAs to review and justify the relevance of all spending against priorities, while offering similar analysis potential at the MDA level.

The paper discusses the context within which the SBAS was introduced, its role in the budget process, how it works, whether it has been successful and the challenges ahead.

3.3.2 Context of introducing SBAS

SBAS supports translating national, sector, MDA or local government strategies into resource allocations for implementation. It therefore needs to create a connection between the allocation of resources by expenditure categories to desired outputs and outcomes associated with the strategies. To understand how the SBAS meets this need, it is necessary to review the hierarchy of strategic instruments in Tanzania.

The NSGRP

The use of poverty-reduction strategies as key instruments of national policy direction has been strengthened since the adoption of the first Poverty Reduction Strategy Paper (PRSP) in 2000. While this PRSP provided new momentum for fighting poverty and guidance on strategic resource allocation, shortcomings in its process and structure detracted from its effectiveness. Firstly, the PRSP identified priority sectors for resource allocation, namely agriculture (research and extension), basic education, primary health, water, rural roads, the judiciary and HIV and AIDS. The government's expenditure policy intentions were assessed by internal and external stakeholders on the basis of progress made in increasing the funding/budgets of these sectors, rather than on the basis of development outcomes. Secondly, the PRSP process was dominated by development partners, with inadequate participation of Tanzanians. This first poverty-reduction strategy came to an end in 2002/2003.

The second poverty-reduction strategy – the NSGRP – was initiated in 2005/2006. The NSGRP is informed by the aspirations of the Tanzania Development Vision 2025 and the United Nations Millennium Development Goals (MDGs). It looks at all of government's goods and services and is structured against three clusters:

- growth and income poverty reduction;
- improvement of quality of life and social well-being; and
- governance and accountability.

The NSGRP is not structured by *input*, but in line with *outcomes* associated with national priorities.

The NSGRP clusters form the highest level in the plan; below them there are goals and then cluster strategies, which cut across sectors. There are also operational outcomes (or monitorable outcome indicators), which are related to goals.

The NSGRP does not leave all this thinking disconnected to the realities of running a government: it explicitly links the relevant actors, including MDAs, regions and local government authorities to cluster strategies. The remodelled structure of the NSGRP means that government spending policy intentions can be assessed in a much more nuanced way – not only in terms of which sectors receive more money, but which specific programmes and activities across sectors are being prioritised.

In contrast to the first PRSP, the NSGRP was compiled with broader and more meaningful participation by Tanzanians. Significantly, donor participation was limited to commenting on the draft, rather than being closely involved in the drafting. Because the government could therefore claim real ownership of and accountability for the strategy, it intensified efforts to re-orient revenue allocation processes to mobilise funding behind the strategies in the document. To ensure that what has been articulated in the NSGRP is implemented, deliberate actions have been taken to integrate strategic NSGRP programmes, projects and activities in MDA strategic plans and budgets.

Public expenditure reviews, the MTEF and the budget

In 1997 the government took ownership of the World Bank public expenditure review instrument and turned it into an annual government-driven exercise. Initially the focus was on budgeting and strategic resource allocations, and on developing the annual budget guidelines into a more policy-based document with improved coverage of sectors and an extension of the underlying fiscal framework over a three-year period. In subsequent years stakeholder participation was sought, and the process was expanded to include the development of an overall MTEF and sector expenditure frameworks for priority sectors. The *Budget Guidelines* therefore included a medium-term fiscal and budget framework (with analytical sections providing a macroeconomic and fiscal policy review and outlook), a discussion of expenditure issues, medium-term ceilings for MDAs and instructions for the submission of detailed annual budget proposals.

Today, the public expenditure review is conducted both at the national level and at sector level. The exercise is led by a working group and includes participation in the evaluative phase by sector working groups, in which domestic stakeholders and donors participate. A macroeconomic working group leads the development of a fiscal framework.

At the macro level the results of the sector public expenditure reviews provided input to the *Budget Guidelines* exercise led by the Budget Guidelines Committee. This body includes senior officers from the Ministry of Finance; the Ministry of Planning, Economy and Empowerment; the President's Office; the Ministry of Public Service Management; and the Ministry of Regional Administration and Local Government. The committee reviewed sector inputs and made recommendations on ceilings. MDAs were expected to develop their detailed budgets within these ceilings through MDA budget committees. Detailed budgets had to be submitted with a three-year horizon, accompanied by detailed MTEF submissions linked to objectives and targets.

While the budget process under the NSGRP retained the same outline architecture, a complicating factor was that the previous budget process was built around sectors, which was insufficient for allocating resources to clusters and subsumed strategies that cut across sectors.

The MTEF and budget classification structures

The SBAS links outcome-based categorisation of expenditure to the standard input-based classifications used for budget and MTEF formulation. The outcome-based categorisation is derived from the NSGRP and sector-specific targets. The input-based classifications are the existing vote and sub-vote classification of the budget. Tanzania's budget estimates are formulated in terms of votes (corresponding to a ministry or local government agency), programmes and sub-votes. Currently the programme classification is a clustering of existing sub-votes in more or less coherent programmatic packages. In addition, MDAs in their forward budget submissions are required to project spending for the full three-year MTEF period in detail, with sub-vote (departmental) allocations broken down by objective, service target, required input and unit cost, and an estimate. The budget estimates are presented at a more aggregate level (vote, sub-vote and line item) to be finalised as the budget estimates are submitted to Parliament.

3.3.3 The 'new' budget process

Having adopted the NSGRP, the government took additional steps to ensure that budget formulation was coherent and aligned with the NSGRP framework.

The explicit linkage between the NSGRP cluster strategies and the budget takes place at two levels. Level 1 occurs at the plan and budget guidelines stage. In addition to completing public expenditure reviews, MDAs provide the Ministry of Finance with information on how they propose to use their funding strategically and request additional funding, either explicitly against NSGRP clusters or against their own sector strategies. The tool used by spending agencies to make the linkage and through which information from all MDAs and local government authorities is pooled in uniform formats and categories is the SBAS. This stage concludes with the issuing of the *Budget Guidelines* (one set for MDAs and one for local government authorities) in which resource ceilings are allocated to institutions up to the level of strategic outcome-oriented targets. At the second level, MDAs input data into the IFMS budgeting tool against their allocations for the preparation of detailed sector MTEFs and the annual budget estimate. This stage involves going further to allocate resources down to activity and input levels. Figure 3.3.1 sets out the adjusted budget process.

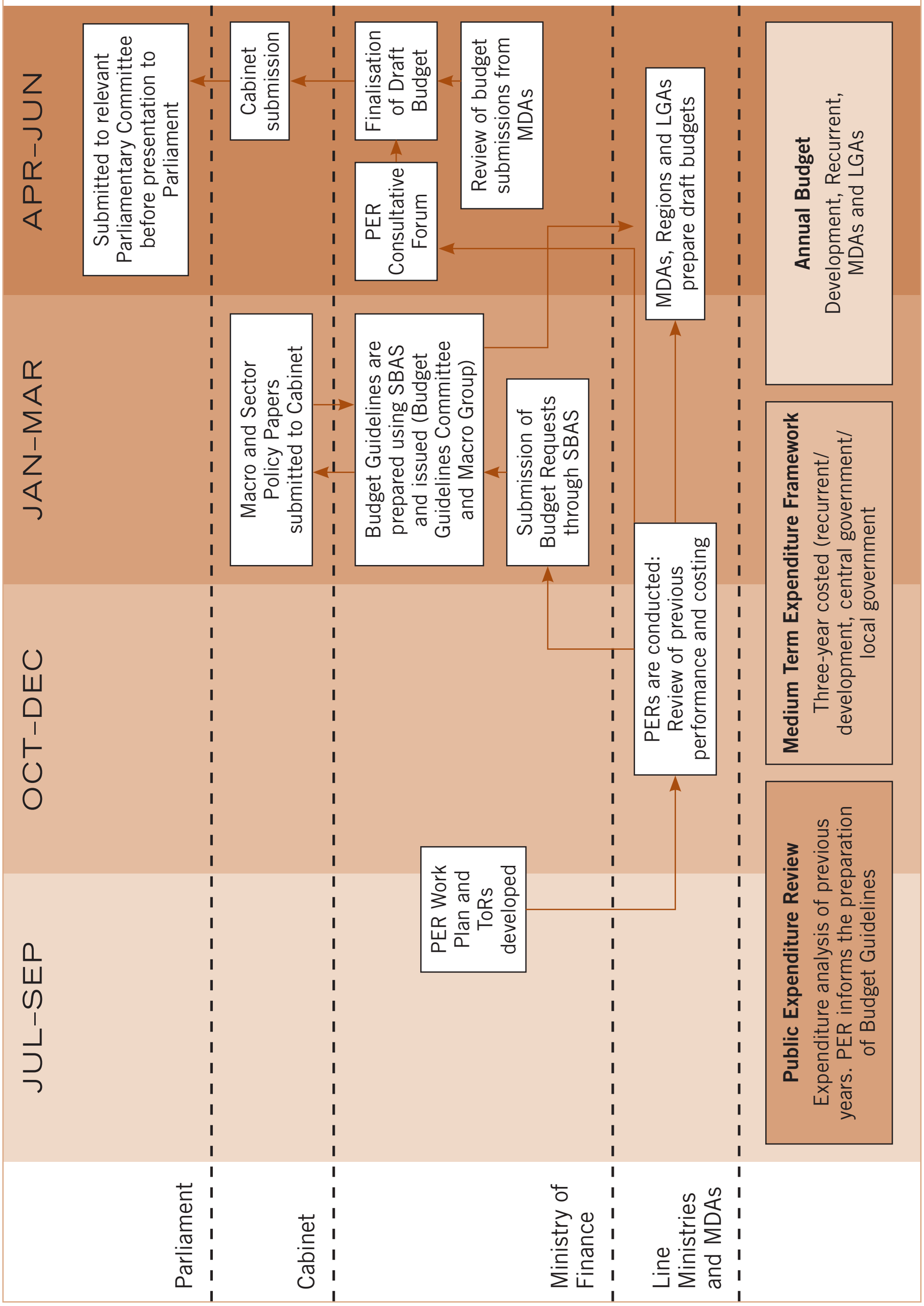
3.3.4 The development and application of SBAS

The SBAS was developed to manage complex budget data for strategies that cut across MDAs and sectors. There are two versions: SBAS Micro and SBAS Macro. The Micro version is used by MDAs to fill out their budget requests electronically, and the Macro version is used by the Budget Guidelines Committee to analyse requests and allocate expenditure in line with available resources and NSGRP priorities.

SBAS Micro as an interface for budget planning

SBAS Micro was designed to be used by MDAs and Regional Secretariats for inputting budget requests to the Budget Guidelines Committee. Initially, the system captured requests at the outcome target level. It accepts both NSGRP and non-NSGRP targets. The NSGRP targets are pre-programmed in line with the government agency allocation to the three clusters. MDAs and regions can therefore see which NSGRP cluster strategies are relevant to them in the system. The wording of these targets is fixed to allow financing and monitoring of the cross-cutting strategies. Non-NSGRP targets come from existing strategic plans and MTEFs, and are internal to the MDA or

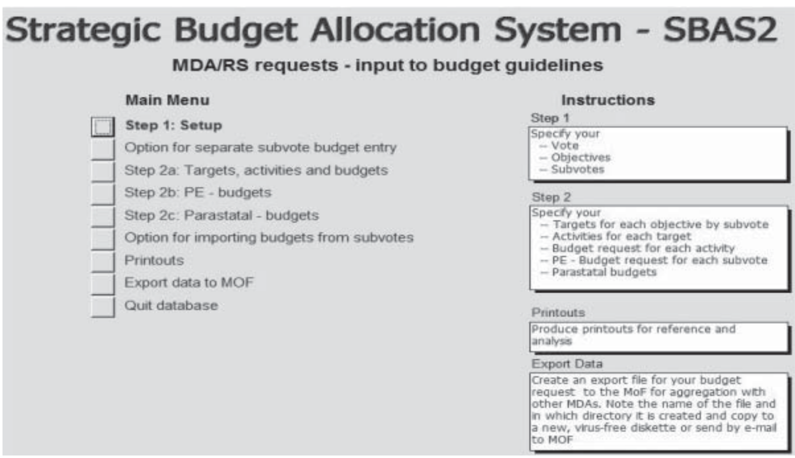
Figure 3.3.1: The adjusted budget process



Regional Secretariat. These are entered into SBAS Micro manually. MDAs can analyse and compare NSGRP and non-NSGRP budget requests at this formulation stage.

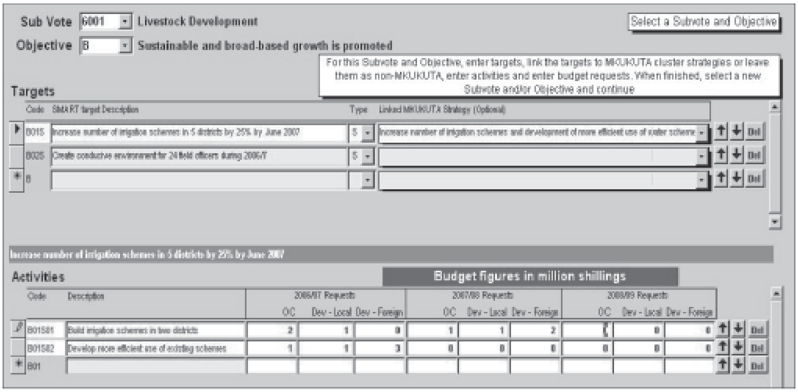
The screen shots below show the options available to a MDA and Regional Secretariats. In 2005/2006 the Micro version of the software was used for the first time as an interface for budget planning between MDAs and the Ministry of Finance: MDAs were able to fill in their MTEF budget requests and submit these to the ministry. The output of the software is exported to the ministry, where it is aggregated. For 2006/2007 the software was developed further to include activity-level analysis and personnel budgets.

The program is designed to be installed on a single computer running either Microsoft Access 2000, 2002 (XP) or 2003. Once a vote is selected, its sub-votes will appear together with the NSGRP goals and cluster strategies for that vote for reference. The software is designed to be self-explanatory, with clear on-screen instructions.



SBAS Micro contains options for selecting the vote, sub-vote and entering the institutional objectives. The updated software used for the 2006/2007 budget has facilities for the specification of activities for each target, the costing of recurrent other charges, and local development and foreign development funds for each activity (and therefore each target). While requests on other charges and local development funds are based on the capacity to implement the programmes and activities, foreign funds request levels depend on grant and loan commitments by development partners. Finally, the software requires the MDA to fill in the personnel emoluments budget for each sub-vote, as well as the relevant parastatal budgets.

The SBAS Micro also has a facility for enabling the user institution to prioritise the targets and link them to the NSGRP cluster strategies. The insert below shows how each target is entered manually, linked to a NSGRP target (which in turn relates to the cluster strategies) and developed into activities with associated other costs, and local and foreign development fund requests.



Requests from the SBAS Micro are imported to the Ministry of Finance at target level as an agency's budget request. In addition to the SBAS information, agencies are required to provide narratives on:

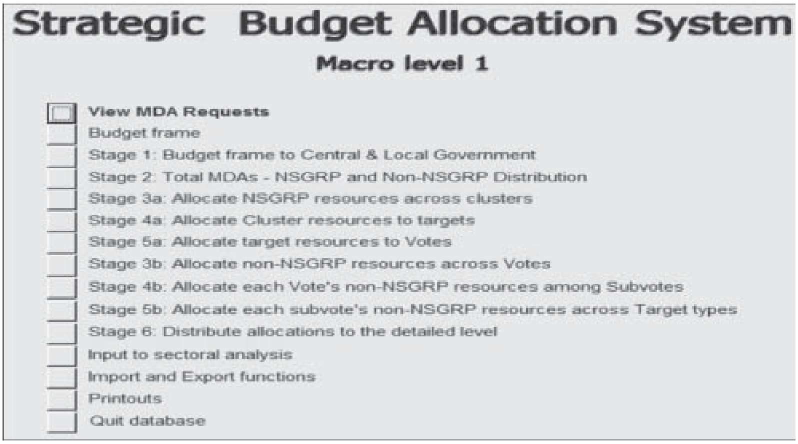
- major policy commitments and the rationale for respective financing requests,
- notable shifts or trends in policy, with expected expenditure implications; and
- summaries of critical issues identified in public expenditure review cluster or sector studies, or in any other studies with budget implications.

SBAS Macro as an allocation tool

SBAS Macro was designed to aggregate the MDA requests, to perform a variety of mathematical operations on the aggregated budget requests and to strategically facilitate the setting of ceilings according to available resources.

Requests at target level are submitted to the Budget Guidelines Committee for consolidation, analysis and resource allocation using SBAS Macro. The system provides different scenarios for distributing resources to both NSGRP and non-NSGRP targets. Resource allocations or ceilings are presented in the *Budget Guidelines* at vote and target levels. SBAS Macro provides a picture of how much is set for funding NSGRP interventions and how much is allocated for other government expenditure. It also maintains the original requests from the MDAs for future budget analysis.

The screen shot below shows the main options available to central Ministry of Finance officials.



In the 2005/2006 plan and budget guidelines resource, ceilings were issued at vote and target levels, with a clear picture of how much was set for use in financing NSGRP cluster strategies.

Once ceilings were approved for each target, the MDAs were required to break down the targets into activity and input level for the annual budget, as well as for the outer years of the MTEF, using the IFMS system.

Improvements made to the SBAS

During the budget allocation process for the 2005/2006–2007/2008 period, MDAs were requested to prepare their MTEF requests by replacing their existing specific, measurable, attributable, relevant and time-bound (SMART) MTEF targets with pre-set NSGRP cluster strategies (in cases where targets adhered to these strategies). These were then referred to as "NSGRP targets". In some cases the NSGRP cluster strategies were too broad and general to effectively serve as SMART MTEF targets. MDAs struggled to make the association between the broad cluster strategies targets and their lower-level sector and institutional strategic plan targets. Some who were more experienced at preparing meaningful MTEFs – particularly those ministries in which sector-wide approaches had been operating – were more successful, using the MTEF projections and categorisations as an interface.

In 2006/2007, in addition to rolling out the SBAS system to regions, the government decided that cluster strategies should not be used to replace the SMART MTEF targets. Instead, institutional targets were developed by institutions during their strategic planning processes; these targets were then associated with cluster strategies by using a pull-down menu in the updated SBAS2 Micro (as illustrated in the picture above). The relevance of the association between MTEF targets and NSGRP cluster strategies was assessed by the MDAs and Regional Budget Committees prior to submission of their requests. Budget requests within SBAS2 Micro were inputted at the level of an activity rather than that of an MTEF target.

Local government authorities link their budgets with NSGRP using a planning and reporting database (PlanRep). This database assists local authorities in planning, budgeting and projecting revenues from different sources. It is also designed for tracking funds received, physical implementation and actual expenditure outlays. Final output from PlanRep is downloaded to the IFMS for annual expenditure management.

Interfacing budget information from SBAS to IFMS

As explained above, the budget guidelines process is level 1 and the annual and MTEF budget processes are level 2 of the budget formulation process. The final budget information from the SBAS Macro in terms of vote and target ceilings is interfaced into the enhanced MTEF module – a tool designed to input performance-based MTEF budgets into the IFMS. It enables MDAs and regions to plan, upload and define targets and activities. Target-level ceilings are also disaggregated to activities and inputs for the annual budget and detailed MTEF preparation. The IFMS also allows for the production of performance reports, which are used for budget monitoring and control.

3.3.5 Achievements and challenges

Enhancing the budget process to improve the links between strategic policy direction, outcome-oriented programmes, resource allocation, and monitoring and evaluation is a work in progress. While some milestones have been achieved over the past two years, some distinct challenges remain.

The introduction of SBAS and refocusing of the budget has contributed to shifting the budget from financing outcomes rather than sectors. Another positive development has been the introduction of consistency between policy, budgets, and monitoring and evaluation systems. The SMART MTEF targets are associated directly with NSGRP cluster strategies. These targets are mapped down to the government finance statistics (GFS) classification codes at input levels.

Similarly, public institutions, development partners, civil society organisations and civil groups can easily see the consistency between strategic allocations at target level in the *Budget Guidelines* and the NSGRP, and between final allocations and activities directly linked with the NSGRP in the annual budget.

Budget aggregation at the central level has been streamlined through standardised inputs to Budget Guidelines Committee processes. MDAs and regions use a standardised template to fill out their budget requests, which are electronically imported into the SBAS Macro.

The SBAS system contributes to the accuracy and consistency of reports of estimates: the Macro version can produce output reports that analyse various categories of the budget (i.e. targets directly linked with NSGRP), and disaggregate at the level of activities and distribution by institutions.

SBAS, however, is a software tool and does not ensure the quality of the process itself, including the type of engagement between stakeholders. In addition, while SBAS can contribute to the funding of cluster strategies that cut across agencies – where multiple MDAs affect joint outcomes – allocation to targets and activities requires close collaboration and dialogue. As an outcome of the Tanzania Joint Assistance Strategy (a government strategy for aid management) and further efforts to improve the budget process, a streamlined architecture for dialogue between the government, domestic stakeholders and development partners has been designed since the 2006/2007 process (see box below). This will reduce duplication between structures and enhance opportunities for cross-cutting dialogue.

The links between the SBAS, IFMS and PlanRep are not yet fully developed. While the SBAS-based allocations are translated into the IFMS software in the second phase of the process, the transfer is done manually beyond the upper levels of allocation. The software intended for tracking NSGRP-related and other expenditure has yet to be fully developed and put into operation.

While the capacity to use the SBAS strategically has improved in MDAs and regions in the second year of use, there are still significant challenges. These challenges are not about the SBAS tool itself, but the need to build analytical capacity in MDAs, regions and local government authorities to establish logical links between national strategic direction, sector policies and strategies, budget programmes and allocations.

3.3.6 Conclusion

Tanzania's strategic planning process, which involves formulation of interventions, strategies and targets, is informed by the NSGRP.

The budget has to encompass all the fiscal operations of the government and address major policy decisions in the context of budget constraints and competing demands for resources. As a result, senior managers in every MDA, region and local government authority have been involved in the planning and budgeting process. The process begins with the preparation of strategic plans at sector and institutional

New dialogue structure for NSGRP budget process

In line with the Tanzania Joint Assistance Strategy, the government has taken the leadership role in restructuring government/donor dialogue forums. The goal is to avoid duplication and overlap, to reduce transaction costs, to improve the integration of aid into the budget process, and to link the budget process and the NSGRP. Salient features of the new structures are:

- The NSGRP-public expenditure review main working group is the overarching forum for policy, expenditure and dialogue. The next level is the cluster working groups, which are aligned with the NSGRP clusters and include both sector and thematic working groups. The third layer is the sector and thematic working groups, in which MDAs and development partners are represented in accordance with their interest in and importance to the cluster.
- Sector and thematic working groups have leading agencies and leading donors.
- Each MDA must have a primary cluster to which it belongs, but it should also sit in other clusters where its representation is important.
- Each cluster and thematic group must have comprehensive representation of both MDAs and donors.
- The dialogue forums are not primarily for donor-government interaction; rather, they are for government dialogue with all its stakeholders. Civil society, research organisations and other local stakeholders are also represented.

Sector clusters are arranged in line with traditional sector groupings such as health, education and integrated justice. The thematic groups refer to the cross-cutting themes of the NSGRP, such as governance, HIV and AIDS, gender and employment.

Source: Fölscher A (2007) Tanzania Group A Report for the Aid on Budget Study, CABRI and the Strategic Partnership for Africa.

level, and progresses through the review of performance and an indication of resource requirements at the *Budget Guidelines* stage. At this point the SBAS Micro is used to make linkages between levels of strategy and budgets in a coherent manner. During this stage, sector policies and institutional priorities are defined, and resources needed to implement them are established.

Significant efforts have been made to explicitly link policy and budget in the MDAs, Regional Secretariats and local government authorities. To attain the desired NSGRP goals, however, it is necessary to strengthen inter-sectoral linkages and collaboration between institutions.

3.4 Rebuilding budgeting to reconstruct a nation: policy and budgets in Sierra Leone

Matthew Dingie

When the war in Sierra Leone ended in January 2002, an immediate challenge for the new government was the re-establishment of an operational policy and budgeting process. Part of this challenge in a post-war environment was translating policy objectives – as expressed in national and sector strategy documents – into programmes that could be implemented and aligned with financing through budget processes.

In the five years since then, Sierra Leone has made good progress in establishing processes, structures and instruments that contribute to this goal. This paper discusses these instruments, how they have evolved and how effective they are as a system in supporting the design of programmes to achieve policy objectives.

3.4.1 Background

The post-war period brought expectations from the people of Sierra Leone of socioeconomic improvement. The government's priority was therefore to establish a strong presence across the nation by maintaining and expanding levels of social and security services. At the same time, it had to ensure a stable macroeconomic environment, if not significant growth, to stimulate private-sector activity.

The first full Poverty Reduction Strategy Paper (PRSP), adopted by the government in 2005, was a core intervention. The 2005 PRSP built on the platform established by the 2001 Interim Poverty Reduction Strategy Paper (I-PRSP) which was formulated as a two-phase strategy: a transition period (2001–2002) and a medium-term phase (2003–2005). While the transitional period strategy focused primarily on the immediate post-war reconstruction, resettlement and security challenges, the medium-term phase addressed the long-term development problems in the context of preparing the full PRSP.

The priorities outlined in the I-PRSP were framed in a growth-promoting macroeconomic framework that focused on agricultural revitalisation, a rapid restart of mining and swift resettlement of rural communities.

The government's ability to realise the objectives of the I-PRSP was enhanced with significant post-conflict international support. It was able to accomplish many of the transitional programmes elaborated in the I-PRSP. Tremendous progress was made in improving security and in resettlement of refugees and displaced persons. In addition, the government has made great efforts to promote macroeconomic stability, contain inflation, and improve public expenditure management and service delivery.

As a result of its good track record in implementing structural reforms, Sierra Leone qualified for Highly Indebted Poor Country (HIPC) debt relief in March 2002 when it reached 'decision point'. It secured enhanced HIPC assistance amounting to $37 million per year in debt service savings during 2002–2005. In order to support the implementation of debt relief, the government developed a detailed plan for the use of HIPC funds, and for their transparent and accountable expenditure. The existing accounting framework was adapted to identify poverty-related budget expenditures and their sub-components, which were financed by HIPC relief. This relief was directed primarily at increased expenditures on education, health, and rural development.

External revenues through HIPC relief and development partner contributions are not, however, a reliable long-term source of revenue. HIPC relief follows a natural downward curve and in a similar fashion, support from development partners is likely to decline as the country moves away from the post-conflict phase. In the

Reform benchmarks and major events since 1999

1999

- January rebel incursion into Freetown
- Destruction of network systems at Ministry of Finance and Bank of Sierra Leone
- Original budget for 1999 abandoned; new budget passed in June with special dispensation by Parliament
- Foreign troops organised under the United Nations Mission in Sierra Leone arrive in November and December

2000

- 8 May demonstration against the Revolutionary United Front Party (RUFP) followed by stampede and shooting at RUFP leader's residence
- Governance Reform Secretariat placed under the Minister for Presidential Affairs
- Approval of Banking Act, Insurance Act and Bank of Sierra Leone Act
- Introduction of medium-term expenditure framework (MTEF) for 2001–2003
- Introduction of the budget framework paper for Cabinet review
- Bank of Sierra Leone Act passed
- Income Tax Act reduced top rate from 50 per cent to 40 per cent
- Financial Management Accounting System (FMAS) main accounts, expenditure control and payroll modules implemented
- Issue of public accounts for 1998 (the first in more than 25 years)

2001

- Approval of Financial Services Act
- First public expenditure tracking surveys (PETS) study (published May 2002)
- FMAS pensions module implemented
- Completion of I-PRSP
- Country Financial Accountability Assessment (CFAA) launched

2002

- Official end of war declared in January
- CFAA completed in March
- Introduction of direct payment of teachers' salaries through a private firm
- Second PETS study
- Inclusion of strategic plans of MDAs in the annual budget
- Income Tax Act lowered top rate from 40 per cent to 35 per cent
- CFAA final draft

2003

- Establishment and training of district budget oversight committees
- Establishment of the National Revenue Authority
- Reduction in the backlog of bank reconciliations and public accounts
- Half-yearly gazetting of all MDA resource allocations and expenditures introduced
- Establishment of Commission on Restructuring of the Senior Public Service
- Dissolution of Central Tender Board and establishment of a Procurement Board
- Design of a new chart of accounts
- Medium-term planning improved with the issue of MTEF guidelines
- Introduction of policy hearings as the first step in the MTEF cycle
- Third PETS study completed

Source: World Bank (2005) *Sierra Leone Public Expenditure Review*.

interests of long-term stability, it was necessary to develop a sound budget process and to put in place appropriate policies for the use of once-off post-conflict funds.

Since 2000 government has initiated a number of reforms supporting improved linkages between resource allocation and policy priorities (see box below). By 2004, however, despite significant gains in stabilising the country, the government's ability to use policy to balance its objectives in resource allocation and to ensure delivery was hampered by capacity constraints at the centre and in ministries, departments and agencies (MDAs), and by a fragmented budget process.

While this paper looks specifically at the translation of policies into programmes that can be financed, it is important to understand that the link between policy and programmes is only one aspect of a much larger system that supports the ability of the government to make this link effectively.

This paper will examine not only how programmes are formulated, but also how other aspects of the overall policy planning system support their formulation. These aspects include the realism and evidence base of the policies, the soundness of the overall budget allocation process, effective cash and financial management systems to ensure the credibility of programme allocations, and a robust monitoring and evaluation system that highlights shortcomings in programme formulation and implementation, leading to required adjustments.

3.4.2 Improvements to the budget management system

Sierra Leone adopted the MTEF system in 2001. Its objectives were to promote planning and budgeting with a medium-term time horizon and to channel resources to key priorities. Through scrutiny of budget proposals, this process also aimed to improve the effectiveness and efficiency of public expenditure.

The budget process for fiscal years 2002 and 2003 enhanced and consolidated civil society participation in budget formulation and monitoring. Outcomes of consultative workshops and sector discussions provided key inputs in the decision-making processes, identifying expenditure priorities and resource allocation for the budget framework. District budget oversight committees were established and trained in 2003.

The budget process starts in June each year with the issuance of the Budget Call Circular by the Financial Secretary. The circular informs MDAs about government's priorities for the coming MTEF period and indicative ceilings that their draft budget proposals should not exceed. Sectoral policy hearings are held, followed by bilateral budget discussions with each MDA with regards to their submissions sent to the Ministry of Finance. Other interested parties are invited to participate both at the policy hearings and the budget discussions. These stakeholders include civil society organisations, district budget oversight committees, public accounts and finance committee members of Parliament, donor representatives and the general public.

The FMAS installed in the Accountant General's Department (AGD) has enabled the government to greatly improve accountability and transparency in the use of public funds during budget execution. A new financial information unit has been established, effectively separating the functions of the system operator and system administrator, and enabling adequate cross-checks for financial controls. In 2004 and 2005 the government made considerable effort to upgrade the FMAS to an integrated Financial Management Information System (IFMIS). This system ensures expenditure control and liquidity forecasting. Other areas of public financial management gradually being implemented include procurement, internal audit, anti-corruption, decentralisation and effective budget execution.

The introduction of a new chart of accounts to capture donor funds in the fiscal report and to aid the publication of routine in-year reports for tracking specific poverty expenditure by function and ministry has supported programme implementation. This enabled donors to shift from project modalities to programme modalities, thereby strengthening the formulation and financing of government programmes.

The Government Budgeting and Accountability Act (2005) is the legislative document that governs budget preparation and execution in Sierra Leone. The regulations for the act were completed and approved by Parliament in June 2007. The act has been a major step forward in stabilising public finance management.

3.4.3 Developing the PRSP and sector policies

A second factor in strengthening the link between policies and programmes is the quality of the policies on which programmes are to be based. There are two aspects to this: the 2005 PRSP and the development of sector policies.

The 2005 PRSP was developed through an extensive consultation process over two years. Nationwide consultative processes ensuring the inclusion of all stakeholders in the form of participatory poverty assessments and focus group discussions were used to formulate the strategy. These results reflect the views and aspirations of the people in policy design as well as their experiences in dealing with poverty-related issues.

The process also dealt successfully with development partners, recognising that they have an important stake in the quality of policies. Following the completion of the PRSP document, the government and its development partners met in London in November 2005 to strengthen their partnership around the PRSP, focusing on monitorable results and improving aid modalities.

The PRSP has three pillars:

1. Promoting security, peace and good governance.
2. Promoting pro-poor sustainable growth for food security and job creation.
3. Promoting human development.

In addition to consultations with the people of Sierra Leone, the PRSP was also based on a number of diagnostic policy and sector reviews. One of the key diagnostic tools was the Household Income and Expenditure Survey undertaken in 2002 by the Central Statistical Office. The government also undertook a review of critical poverty sectors with assistance from the development partners. These reviews in turn fed into the quality of sector policy documents aligned with the PRSP. The sectors included agriculture, health, education, tourism, infrastructure, micro-finance, good governance, private sector and security.

According to the first annual report on PRSP (published in November 2006), its implementation was guided by a set of key principles, many of which fed directly into efforts to translate policies into programmes and budgets. The key principles include:

- Building strong ownership of the PRSP through a participatory process, with the active involvement of civil society, the private and public sectors, and representatives of vulnerable groups in implementation, monitoring and evaluation.
- Making the planning process more transparent, with more efficient co-ordination and prioritisation.
- Engaging local implementation through the participation and co-operation of local government representatives, NGOs, the private sector and donors. These efforts are embedded in the programme of public administration reform and decentralisation.
- Building explicit partnerships during implementation to improve co-ordination and information sharing.

In this spirit, the implementation framework for the PRSP includes policy committees such as the Inter-ministerial Committee and various technical committees. The Development Assistance Co-ordination Office serves as the secretariat responsible for co-ordination of implementation and monitoring. Some of these committees are directly active in the translation of policies into programmes and budgets.

3.4.4 Structures for linking policies to budget

Many different agents take part in the budget formulation and execution process. The Ministry of Finance takes overall responsibility for the budget, with the Ministry of Development and Economic Planning responsible for the development expenditure element. As mentioned earlier, the budget process is initiated by a joint Budget Call Circular issued by these two ministries. Line ministries, following meetings of their budget committees, respond with the submission of their suggested allocations.

Policy hearings are conducted where representatives from each of the main sectors (general, security, social and economic) outline the aims and objectives for the year ahead. Budget hearings are held where representatives from district budget oversight committees challenge line ministries about their performance for the current year and their proposed allocations for the next year. Following these discussions, revisions are made to the proposed allocations. Then, meetings take place with budget support donors, particularly the International Monetary Fund (IMF). The final resource envelope is agreed between the government and the IMF and the proposed allocations are revised accordingly. Finally, the proposed budget is sent to the Cabinet and then to Parliament for further debate and eventual approval.

These routine structures are supported by new structures under PRSP implementation and budget formulation. A key feature of these structures is their role in monitoring and evaluation, and in co-ordinating activities, programmes and budgets. These structures are discussed in more detail below.

Inter-ministerial Committee

At the highest policy level, an Inter-ministerial Committee has been established. The committee is chaired by the vice-president and includes the Ministries of Finance; Development and Economic Planning; Education, Science and Technology; Agriculture and Food Security; Health and Sanitation; Works; and Youths and Sports. The Inter-ministerial Committee was initially established to oversee the decentralisation process. However, the mandate has been expanded to cover the implementation and monitoring of the PRSP.

Development Partnership Committee

DEPAC meetings provide a forum for continuous dialogue between the government of Sierra Leone and its development partners. DEPAC started meeting in 2003 with a focus on ensuring that the national recovery strategy was on track. DEPAC is an important forum for discussing government funding priorities with development partners, and for orienting support to priority areas.

National Technical Committee

The National Technical Committee comprises the technical heads of selected MDAs, as well as representatives of civil society and NGOs involved in the implementation of government services.

Pillar working groups

To facilitate implementation, working groups have been established for each pillar of the PRSP. These groups meet regularly to discuss issues relating to the various sectors and thematic areas within their respective pillars. They have evolved into extremely effective forums for dealing with implementation bottlenecks, co-ordination at the technical level and resolving issues of common concern to programmes within the pillars. Pillar working groups are composed of sectoral ministries and the development partners that fund the programmes within the sectors.

Local councils

In line with the government's decentralisation agenda, all district councils have set up district planning committees. These committees take the lead in co-ordinating activities related to the implementation and monitoring of the PRSP at the district level. In addition, within each council a PRSP focal point has been identified and is responsible for providing up-to-date information to the Development Assistance Co-ordination Office on issues related to implementation and monitoring of the PRSP. A district monitoring committee has also been set up for each district to ensure that routine poverty-related data is collected, collated and disseminated quarterly.

3.4.5 Policy monitoring instruments

In setting up systems for the 2005 PRSP, the government developed a results framework designed to be integrated not only with the PRSP, but also with ministries' strategic plans, which in turn are translated into budget allocations through programmes. The results framework strengthens the link between top-level policy objectives, programmes and budgets.

The original results framework has already been reviewed to ensure that it is a more effective tool. One aspect of this process was the establishment of credible indicators. The indicators for the Ministries of Education, Health and Agriculture have been revised to take account of more precise definitions, the frequency of data collection, methodology, means of verification, responsible agency, baseline data and targets. A quarterly reporting format has been developed for these three ministries.

The results framework is maintained at operational level with performance tracking tables (PTTs). The PTTs track progress on programmes being implemented by each line ministry or government agency on a quarterly basis. The PTTs support sound strategic policy and programme formulation by requiring MDAs to define outcomes, baselines, year-end targets and planned quarterly results based on their annual strategic plans.

The PTT is not limited to the PRSP: it looks more broadly at overall government programmes. Figure 3.4.1 shows the PTT template.

Figure 3.4.1: Performance tracking tables

Name of MDA:
Year of Implementation:

Policy Outcome	Sub Outcome	Baseline	End Target	Progress Indicators								Institution	Location		Remarks
				Q1		Q2		Q3		Q4			District	Chiefdom	
				Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual				

3.4.6 Budget programmes and achieving outcomes

Ideally, a programme should have the following features:

- a measurable objective(s) that can be evaluated over time;
- a time frame for the achievement of objective(s);
- a standard set of activities to be carried out or executed;
- adequate resources (human and capital);
- flexibility; and
- subsets/divisions/functions to carry out core activities to ensure specialisation.

These features are standard across different sectors, although sector-specific categories of information may also be required.

Given the links to the PRSP and its associated monitoring framework, programme budgeting in Sierra Leone developed early links to performance-based budgeting. The country progressed to budgeting for programmes through the simultaneous development of its budget system (through the implementation of the MTEF process) and a systematic approach to policy-formulation through the development of the 2005 PRSP. Prior to introducing programmes into budget planning, the country worked with traditional line item structures and a practice of budgeting incrementally.

The government places considerable emphasis on designing a budget architecture that groups expenditures and sources of funds into functional activity categories. In programme budgeting terminology, a function is simply a group of related activities for which a governmental unit is responsible. The classification structure used in each unit is a product of fiscal, organisational, and political considerations. A shift to programme budgeting and a greater focus on performance has meant that MDAs have had to (or must still) synchronise their organisation structures, budget classifications and accounting systems.

For example, the Ministry of Health has five major programmes along functional lines. One of those programs, primary health care services, is broken down into smaller units, such as maternal and child health, malaria prevention and control. Each of these functions is then divided into smaller units. Programme-based budgeting allocates resources by function, which in turn is divisible into activities.

Linking these programmes to policies necessarily has a performance aspect. In an ideal world, programme performance budgeting should focus on setting goals, designing the strategies needed to meet the goals and measuring how well they are met. Future funding decisions should focus on programme effectiveness, not on the preservation of existing programmes and levels of spending. This approach requires that budgeting be directed at programmes rather than at specific line items, that the goals of those programmes be laid out in measurable terms and that performance review becomes central to budget decisions.

The PRSP has become the national strategic instrument for focusing efforts to develop an effective link between programmes, budgets and performance against policies. To ensure effective implementation of the PRSP, each MDA has been allocated under a particular pillar of the PRSP. MDAs prepare strategic plans that have activities and programmes, which when implemented will meet the objectives under that particular pillar of the PRSP.

The strategic plans form the basis of designing programmes that will meet the policy objective of not only the ministry or sector, but also the objectives spelt out in the PRSP. The strategic plans are therefore a subset of the national PRSP, with programmes being a subset of the strategic plans.

The new PRSP budget process also uses activity matrixes and action plan templates to translate the PRSP pillar priority actions into funded programmes. The first activity matrix was prepared for the 2005 consultative meeting, and has since been updated. There is an overall matrix for government, as well as sector matrixes which relate to PRSP and strategic plan priority actions. The activity matrix simply lists the objective, the expected outcome, targets and the current status. For each objective action plan templates are completed. These provide detail on activities and funding requirements and expected outputs (see Figure 3.4.2).

Figure 3.4.2: Action plan template

***Objective:**
***Expected Output:**
***Activity:**
***Cost:**

A	B	Time Line												D	E	H
No.	Sub-Activities	J	F	M	A	M	J	J	A	S	O	N	D	Unit Responsible	Required Amount ($)	Remarks
1																
2																
3																
4																
5																

* As stated in the activity matrix

Despite these improvements, many ministries still focus on line items in their budgets rather than activities spelt out in their strategic plans. Even in the case where activities are to be implemented, it is difficult to trace which programme is being implemented and how outcomes can be measured against set objectives. The challenge is to move from strategic plans to programme design – and the allocation of resources in the budget to programmes rather than activities or line items.

The introduction of strategic plans within the MTEF system has to a large extent seen ministries move from the incremental line-budgeting approach to activity-based budgeting. How well the country is able to translate budgets for activities into financial programmes, however, is a function of the classification system.

The classification of the national budget is as follows:

- Sectoral – general, security, social and economic.
- Functional – wages and salaries, goods and services, debt service payments.
- Recurrent – standard/non-standard capital and development expenditures.

In formulating their budgets, ministries cost the activities in their strategic plans and assign measurable performance indicators to each output/outcome that will be achieved when that activity has been carried out. The costing is then translated into the budget classification system. One of the major problems faced in the costing of the activities is that the ceiling given by the Ministry of Finance is usually insufficient to finance ministries' proposals. This makes it difficult to link the costs of planned outputs to the budget, since re-prioritisation might lead to drastic cuts in or even elimination of certain activities. The lack of a direct link in the classification system to programmes and activities makes prioritising between activities (rather than between budget lines) very difficult.

One important intervention has been the support provided under the PRSP for overcoming these difficulties and improving the link between policies and programmes. The priority actions for this leg of the PRSP included strategic support to six key ministries to develop effective strategic plans. Other support included the tabling of the budget in improved, more transparent formats; development of the IFMIS; and continuing with PETS to highlight service delivery problems.

Ensuring that links hold through allocations and implementation

The scrutiny of budgets against policy by the Ministry of Finance is critical for ensuring that links are secure between policy priorities and programmes. This has two dimensions: firstly the ministry's allocations should not weaken the links that have been established at the sector level; and secondly, if the links established are weak, the ministry's scrutiny should rectify the gap.

Strong ownership of the PRSP has supported more effective scrutiny when budget submissions are reviewed. It has enabled staff at the Ministry of Finance to extract key objectives, compare these against sector strategies and proposed use of funding. Allocating funds is partly based on a priority ranking of objectives and strategies in line with the PRSP. The ministry also pays attention to the expected return to be earned from the implementation of proposed programmes. Another factor is whether programmes run independently, or whether they are interdependent with other programmes. Independent programmes may be financed in whole or in part, while those that are linked have to be fully funded so that other funds can be spent effectively. So in the allocation of resources, those programmes that are mutually exclusive and of high priority have to be funded first.

Like many developing countries with low cash reserves and high dependency on foreign funding (about 40 per cent in Sierra Leone's case) unpredictable resource flows cause considerable disruption to budget implementation.

To reduce this problem, the Ministry of Finance has designed a fiscal priority framework with help from the IMF. This framework seeks to do two things: first it divides income into two parts – reliable and unreliable – and then it divides expenditure into two parts – priority and non-priority.

Income that is deemed reliable is matched against the priority expenditure; unreliable income is set against non-priority expenditure. This mechanism helps to ensure that the government's priority outlays are always funded, despite shortfalls in income. By the same token, non-priority outlays will not be funded when there is an income shortfall.

The Ministry of Finance has drawn up revised procedures to help implement the framework, which became fully operational at the beginning of 2007. The basic strategy employed in these procedures is to use the budget and the procurement plans of each ministry as a form of early commitment control, so that projected payments do not exceed projected resource availability. In particular, priority expenditures should not exceed well-identified resources. Formal commitment control is used to ensure ministries spend only for approved purposes and to minimise the accumulation of arrears. Payment control is used to ensure borrowing targets are maintained.

The hope is that as a result of these procedures, whenever domestic or foreign revenue does not arrive as expected, government can at least ensure that the effect on priority government spending is minimised.

Integrating the recurrent and capital budget

Since the inception of the MTEF in 2001, the government has faced several challenges in its effort to integrate the recurrent and capital budget. These challenges include: separation of the planning and monitoring institutions for the recurrent and capital budget; unpredictability of the recurrent component of certain capital budgets; weak donor co-ordination and unpredictability of donor-funded capital expenditures; and weak strategic plans of some MDAs that should incorporate all recurrent and donor-funded capital expenditures.

This triggered the need to strengthen the strategic planning process, which aims to capture all foreign inflows that mainly fund the capital budget, and to integrate their recurrent components in the budget.

About 65 per cent of Sierra Leone's expenditure is recurrent and 35 per cent is capital spending. Ideally, these two budgets should be integrated to facilitate better planning and performance within each department. However, the path to integration will not be straightforward. One of the main reasons is that the funding source for each type of revenue is different. Recurrent spending is over 70 per cent funded by domestic resources, while the capital budget is over 80 per cent funded by foreign loans and grants. This means that accountability and management structures for the disbursement of funds are necessarily distinct, and the budgets are planned and implemented separately.

An important factor in aligning development partner resources effectively with government resources is the modalities that are in use. Sierra Leone has been fortunate in securing significant budget support through various instruments, resulting in recurrent spending being funded over 70 per cent by donor resources. However, this also makes programme integrity problematic in the case of shortfalls of donor funds. In addition to the priority spending cash flow management mechanism set out above, a greater move to more predictable modalities would assist.

In reality, the implementation of the PRSP has suffered from less-than-timely disbursement of pledged resources. In addition to the rigidities, complex requirements lead to delays in the commencement of projects and failure to meet conditions for aid effectiveness. There are high expectations that the Paris Declaration on Aid Effectiveness will be translated locally into greater flexibility and streamlining of aid modalities.

Therefore, the need to have a clear and effective harmonisation agenda in Sierra Leone cannot be overemphasised if donor intervention is to make its expected impact. In support of this goal, a government/donor task force has been formed to discuss harmonisation and aid effectiveness. Meanwhile, the Development Partnership Committee dialogue series continues to provide a forum for dialogue in which a number of issues can be resolved, supported by donor participation in the sector pillars.

3.4.7 Conclusion

The government has made significant progress in re-establishing a budget process and institutionalising structures. An important objective in this process has been the need to link PRSP policies to funding – not only domestic funding, but to the high volume of external resources that flow through the budget or directly to recipient government structures.

To this end the government has introduced an MTEF, strategic planning in ministries, improved cash management systems, better budget execution and accounting systems, a new chart of accounts, new legislation and an elaborate structure to ensure linkages between the PRSP, programmes and budgets. Measuring performance, and monitoring and evaluation, are prioritised to ensure that reforms are on the right track.

A key challenge is to ensure that these structures function more effectively through building capacity, which remains relatively thin at the level of ministries for planning, programming and budgeting. While progress has been made in key ministries, this should be extended to all of government to ease the analytical burden on central ministries. Such a step would also bring planning and programming closer to where it belongs: in sectors that have a better understanding of policy and spending dynamics in their areas of work.

Endnotes to Chapter 3

1 Diamond J (2003) *From Program to Performance Budgeting: The Challenge for Emerging Market Economies*, IMF Working Papers.

2 The term 'programme budget' refers to a programme performance budget and is used in the rest of this paper, except where the additional emphasis is relevant.

3 The two are often confused in practice at the outset.

4 This will come from a financial planning ceiling from a medium-term budget framework.

5 Programme budgeting takes time. Even though conversion may and often should imply a change in the administrative structure, it is not something that can or should be done in haste.

4

The politics of the budget process

4.1 Introduction

A crucial aspect of the link between national policy and budgeting systems is the interface between the political and bureaucratic spheres of government. As argued strongly in this volume and during the 3rd Annual CABRI Seminar, policies are the responsibility of elected office-holders or ministers. The accountability of the ruling party or an elected president to the electorate is dependent on clear roles and responsibilities within the executive for policy-making and implementation.

In this regard public finance and management texts often make a distinction between political accountability – the accountability of elected officials to the public for the development and implementation of policies – and operational accountability – the accountability of the civil service to elected official holders for the operations of government.

Both types of accountability need to be in place, but in reality, the lines between the two are often blurred. Structures are often merged, with a minister assuming detailed operational oversight responsibilities, or the bureaucracy (and its technical advisors) capturing policy-making responsibilities. Even where structures are separate, with distinct ministries overseeing one or more departments, the technical policy-making capacity may still rest with departments. In contrast, senior budget officials frequently complain of political 'interference' in budgeting and budget management. Is this claim justified? Given that the budget is perhaps a government's most political instrument, insofar as it presents real choices between competing priorities, is it not primarily a policy matter? Or should it be seen as a primarily technical exercise best left to those who know what they are doing at a technical level?

The seminar session on the Politics of the Budget Process grappled with these questions. It looked at a Ghana case study of the politics of the budget by Professor Tony Killick from the Overseas Development Institute, which resulted in lively discussion on the rules that senior budget officials apply in fulfilling their mandates. Dr Ilda Jamba from the Ministry of Finance in Angola presented on how the formal system there manages these tensions.

In this chapter, Paolo de Renzio from the University of Oxford and the Overseas Development Institute deals with some of these issues. He carefully presents the arguments from both sides, drawing on discussion at the seminar and further case studies. Ultimately the answer lies in the fact that there is a natural tension between the budget as both a technical and a political instrument. How this plays out is crucial for accountability and sound spending. The paper pays due attention to the key role that senior budget officials play in managing this tension.

4.2 Working in the twilight zone: senior budget officials and the politics of the budget process

Paolo de Renzio

'*Most practical budgeting may take place in a twilight zone between politics and efficiency.*'
– Aaron Wildavsky (1961:187)

'*Senior budget officials have no friends, except for other senior budget officials.*'
– Participant in the 2nd Annual CABRI Seminar

4.2.1 Introduction

Throughout the world, the annual budget is a key policy document, setting out a government's intentions for raising revenues and using resources. At the same time, however, and precisely because they are the main instruments for allocating resources to different agencies and activities, budgets are also political documents, resulting from a bargaining process that reflects the balance of power among different actors and interests within the government and in the country as a whole.

Given that resources are limited, budgets determine who are the winners and losers in the resource allocation process. These choices and trade-offs are sometimes based on technical considerations, but more often are the ultimate outcome of a complicated interaction between different interest groups and constituencies, ranging from cabinet members to government departments, from economic lobbies to civil society groups. Therefore, they often involve a compromise between 'optimal technical solutions' and the reality of politics and interests within a country.

Aaron Wildavsky's definition of budgets as 'attempts to allocate financial resources through political processes to serve differing human purposes' (Wildavsky 1975) points to two main characteristics of budgeting processes in poor countries: scarcity and uncertainty. On one hand, the budget process forces public policy choices to be made and trade-offs to be identified. On the other hand, in an environment often characterised by limited transparency and accountability, scarcity also means that budgets may be limited to wish lists of political promises that remain unfulfilled as hard budget constraints start to bite during the course of the financial year, or are financed through means that put fiscal stability at risk.

At the same time, the complexity of the environment in which budgets are formulated and implemented often results in a high degree of uncertainty about actual budget outcomes. Financial shocks, political turmoil and natural emergencies can have a deep impact on normal budget practices, resulting in shifting priorities and ad hoc measures that undermine the predictability and significance of the budget as a policy statement and as a guide for government action.

Senior budget officials (SBOs) work at the very centre of this complex environment, in that 'twilight zone' where priorities and pressures need to be balanced, and solutions need to be found for difficult problems, in the constant attempt to reconcile the demands of politics and technical efficiency. This paper seeks to shed some light on these challenges, highlighting the role that such officials play and the ways in which they can manage both the technical and the political side of the budget process.

The rest of the paper is divided into four sections. Section 2 summarises some of the findings from recent literature on the politics of the budget. Section 3 focuses on the main factors that shape the role of SBOs. Section 4 looks at the contradictory role that donors play in the budget process. Section 5 concludes the paper.

4.2.2 Background and case studies

There is a growing recognition that public expenditure management is a political process, rather than simply a technocratic task. Not that many, especially those with any experience with budget processes, ever doubted this, but certainly many approaches to budget reform have focused mainly on the technical aspects of the management of public resources.

In a study of trends in the composition in public spending in 34 African countries over a 20-year period, Gyimah-Brempong (1998) finds that some budget categories such as defence, education and economic affairs have been consistently protected, while others such as health and social services have been disfavoured. He goes on to argue this is more likely to be the result of political pressures, rather than just a consequence of other economic and social factors. When budget resources are limited, he says, 'interest groups are likely to intensify their pressures on governments to protect the budget share of programs that benefit them. The more organised and intense the pressure, the greater the chance that the government will protect that budget category… [I]nterest groups that are persistent and loud, and threaten to do most harm (military, students) get their way in budget allocations' (Gyimah-Brempong 1998: 610).

Studying the politics of the budget process therefore essentially means examining the ways in which the distribution of power among different actors within that process affects the distribution of public resources. Yet in the literature there are very few detailed descriptions of the politics of budget processes in African countries.

Looking at the case of Ghana, Killick (2005)[1] describes the expenditure side of the budget as a facade, characterised by large deviations between estimates and actual spending, by a systematic anti-developmental bias against non-salary and capital expenditures, and by leakages that prevent allocated operational funds from reaching service delivery units. This, he claims, is the result of a number of factors. Firstly, the budget process in Ghana is a closed one, which excludes the wider public and other interested non-state actors, preventing them from accessing information and contributing meaningfully. Secondly, the budget process suffers from a 'democratic deficit' due to the limited accountability provided by parliamentary scrutiny, which is hampered by lack of capacity and tends to be 'hurried, superficial and partisan' (Killick 2005: 2).

Finally, given the patronage-based, neopatrimonial nature of Ghana's political system, not very different from many others on the African continent, politicians lack the incentives to bring about reforms that could address the previous two constraints.[2] The ritualistic nature of the budget formulation process serves the purpose of keeping taxpayers and donors happy, while during the budget execution phase the attention shifts to maintaining political support, for example through the payment of civil service salaries to the detriment of more developmental expenditure.

This negative view of how politics affects the budgetary process, Killick says, is compensated somewhat by recent improvements which, beyond the more general trend towards democratic consolidation, include improved transparency and consultation on budget matters, and the introduction of better financial management systems that have limited leakages. The strong influence of politics on budget policies, however, is confirmed by Gyimah-Brempong, who argues that 'to maximise political longevity, governments in Africa reward groups with strong political influence in budgeting while treating those with little political influence with indifference, at best'

(Gyimah-Brempong 1998: 610), with little regard for the efficiency of public spending or its impact on poverty and development.

Two other case studies carried out in Malawi (Rakner et al. 2005) and Mozambique (Hodges & Tibana 2004) highlight similar issues.[3] In Malawi, the authors refer to the budget process as a 'theatre' in which, 'by circumventing formal political processes, strategic actors ensure that economic resources are concentrated to an extent not intended in the formal budget processes… As a result, despite stated intentions expressed in the Malawi Poverty Reduction Strategy Paper, the outcome of the budget process in Malawi is a budget that secures the interests of the politically powerful actors in the public sector' (Rakner et al. 2005: 05). They also go on to describe some of the pressures faced by SBOs:

> There is ample pressure on controlling officers to allocate funds for political objectives, such as political patronage (distributing gifts like blankets or food at political or social functions, visits to hospitals etc.) or for travel allowances for employees in the department. At this point, controlling officers like the Budget Director cannot counteract to keep the allocations in line with the voted expenditures. Controlling officers are removed regularly and advancement/ retainment of position is linked to the minister. […] The end result is that political and personal interests and lack of commitment of apex leaders lead to budget sectoral allocations and hence expenditure patterns that are neither pro-poor nor pro-growth. (Ibid.: 16)

The predominance of informality in the budget arena, highlighted by the Malawian case, is very vividly described by Schick:

> The government has two budgets: the public one that is presented to the parliament and the real one that determines which bills are paid and how much is actually spent. The formal budget promises spending that exceeds the government's fiscal capacity; the informal budget facilitates macroeconomic stability by not making some of the expenditures approved by the parliament. The formal budget is known in advance, the informal one after the spending occurs. Because there are two budgets, the temptation is for the formal document to be unrealistic and unachievable. The process thus feeds on itself… Informality is a mixed blessing. On the one hand, it cuts through red tape, unresponsive bureaucracies, and bad policies; on the other hand, it opens the door to (and sometimes institutionalizes) corruption and inefficiency. (Schick 1999: 128)

In Mozambique, the study finds that while the role of politics within the budget process itself may not be as pervasive as in the case of Ghana or Malawi, many of the weaknesses are quite similar. An aspect that the authors emphasise, however, is the predominant role of donors, given the weakness of many domestic actors. 'High aid dependence,' they say, 'means that the budget process essentially involves only two actors, the executive and foreign donors' (Hodges & Tibana 2004: 8).

Looking at experiences and evidence from other regions, a recent study on the politics of the policy-making process (rather than the budget process) in Latin America, carried out by the Inter-American Development Bank (IADB 2006) also tried to unpack the ways in which politics and political institutions influence the policy-making process and the quality of public policies that result from it. One of its main findings, quite unsurprisingly, is that 'effective political processes and better public policies are facilitated by political parties that are institutionalised and programmatic, legislatures that have sound policy-making capabilities, judiciaries that are independent, and bureaucracies that are strong' (IADB 2006: 9).

In particular, the IADB study devotes an entire section to the role of bureaucrats, starting from the assumption that 'a neutral and professional bureaucracy limits the scope for the adoption of opportunistic policies' (ibid.: 67). The interplay between the bureaucracy's autonomy from political pressure, and its capacity to contribute to the policy-making process will determine the role it plays, or 'how closely it approaches the ideal of being a neutral and professional actor that guarantees the stability, adaptability and public interest of policies, or mainly functions as a private resource either of political parties, which use it to obtain votes, or of civil servants, who defend their own interests while being protected by job security' (ibid.: 68).

Yet it is important not to equate the political nature of the budget process with a negative view of political interference and meddling, where politicians are always self-interested, short-sighted, politically motivated individuals with little sympathy for technical analysis and fiscal prudence, and bureaucrats the guardians of sensible, evidence-based policy-making whose job it is to keep the politicians from interfering. In a democratic system, after all, it is politicians who are elected and are accountable to the electorate for policy decisions, not bureaucrats.

Experience from countries that successfully reformed their budget processes shows that a key component of the reforms had to do with a higher degree of political involvement at key stages of the budget cycle to ensure that political agreement and buy-in was the basis for basic budget decisions.[4] In Australia, a key to success was the political power invested in the Expenditure Review Committee, a sub-committee of Cabinet. This committee was responsible for determining the overall fiscal framework and for managing strategic policy-making, including policy changes necessary to reflect fiscal realities as well as the shifting priorities of the government. As a result, policy decisions were given much greater legitimacy, as they were in a contest both as ideas and for funding.

The South African approach to budget reform has also placed great emphasis on drawing political office-bearers into the resource allocation and application process. This has taken the form of executive consideration and approval of critical reforms. The reformed budget process has involved national and provincial Cabinets in overseeing and managing the entire process, creating a link between policy planning, budget drafting and execution. This led to a greater degree of contestability and buy-in within the executive and Cabinet, and to what Folscher and Cole (2004) call 'political peer pressure'. The decisions of Cabinet were widely publicised through the pre-budget statement and other budget-related documents. This combination of inclusiveness and transparency increased the pressure on political office-bearers to adhere to the decisions that were made. As Folscher and Cole put it: 'Together with appropriately timed public statements to signal closed-off budget decisions, a transparent budget process, the system of hard budget constraints and the provision of good technical support to these forums on the financial implications of policies, this reduces the potential of accessing funding 'through the political back door' or through in-year budgeting games' (Fölscher & Cole 2004: 122).

Similarly, a recent Organisation for Economic Cooperation and Development report on the political involvement in the appointment of senior civil servants highlights that 'political involvement in administration is essential for the proper functioning of a democracy. Without this an incoming political administration would find itself unable to change policy direction. However public services need protection against being misused for partisan purposes, they need technical capacity which survives changes of government, and they need protection against being used to impair the capacity of future governments to govern' (Matheson et al. 2007:5).

This brief review of literature on the politics of budget and policy-making processes has highlighted some themes discussed in the rest of the paper. These include:

- the importance of thinking politically about budgets, rather than just approaching them from a technical point of view;
- the potential contradictions and incompatibilities that exist between formal and informal institutions around the budget process, and between the interests of power holders and the collective interest;
- the political role that donors inevitably play in aid-dependent countries, given their strong policy preferences and their role in providing government revenue;

- the importance of guaranteeing adequate autonomy and capacity of the bureaucracy, while not being naïve in assuming that senior bureaucrats are politically neutral and automatically represent the collective interest; and
- the need to go beyond traditional views of politician-bureaucrat relations, to recognise the importance of drawing politicians deeper into the policy process, achieving a better balance between the technical and political aspects of budgeting.

4.2.3 Facing the challenges of budget politics[5]

Understanding and managing political pressure

As highlighted in the introduction, SBOs occupy a very privileged and delicate position. They work in the 'control room' where budget policies are formulated and monitored, in the place where most of the information related to budget matters is collected and analysed. This gives them the privilege of being at the core of the policy-making process, influencing political decisions through the technical analysis that they generate.

At the same time, however, they are the first ones to be called upon when something goes wrong. Student strikes, natural disasters, powerful lobbies and donor conditionalities are only a few examples of the kind of emergencies and pressures that SBOs have to face and respond to in their daily lives. This makes their position a very delicate one, as they are the focus of intense and competing political pressures, yet they are not politicians. One of their main challenges, therefore, is that of managing the budget process in a way that as much as possible allows political decisions to be taken on the basis of sound analysis and established procedures.

In this difficult position, SBOs can choose to act in a number of different ways. Some see their function as followers of their political masters, carrying out orders without questioning their validity, leaving the policy decisions to ministers and limiting their role to that of number crunchers. Others see themselves as more active technocrats, defending a more rational policy-making process (where information and analysis feed into policy, and where budgets are implemented as approved), and a vision of collective interest that needs to be protected from powerful interests. In this role, they seek to influence politicians, they form alliances with like-minded individuals within and outside government, and they sometimes bend the rules to reach their goals.[6]

To better manage their relationship with the political level, SBOs need to start from a detailed understanding of a number of factors, including (Norton & Elson 2002):

- the formal structure of roles and responsibilities within the budget process;
- the formal rules governing decision-making, political choice and accountability within the public expenditure management system;
- the networks of stakeholder power and influence (outside formal roles and responsibilities) that influence the outcomes of the budget process;
- incentives for action (covert as well as overt) affecting the decision-making of politicians and officials during the budget process; and
- the norms and values prevailing in key institutions within the budget process.

In each country, these factors will vary, and form a different constellation of actors with their respective power, roles and incentives. Depending on formal and informal institutional structures, the main focus of political power can rest with the president, with party structures, with certain Cabinet members or with Parliament. The capacity of interest groups to influence budget processes may be related to inter-linkages between the political and business elites, or to the relative powers of other actors such as trade unions or the churches. Donors may also try and exert their influence in different ways, either through sectoral ministries or by political bargaining with top political levels.

The more an SBO manages to grasp the complexities of this web of interests and responsibilities, including the personal characteristics and preferences of some of the key individuals involved, the more he or she will be able to act strategically, and to manage difficult situations to find the right compromise between politics and efficiency. In this sense, even if SBOs are not politicians per se, they must be politically savvy in understanding and managing the politics of the budget process, challenging and advising politicians from a technical standpoint, but with an eye to political feasibility and to the need for compromise.

The importance of good systems

One of the main factors shaping SBOs' capacity to manage political pressure is linked to the strength of formal systems regulating the budget process. For example, if budget legislation includes fiscal rules or limits the executive's capacity to reallocate resources during the budget execution phase, SBOs will be able to better resist pressures that can compromise the fiscal balance, or defend budget items that should be given priority from a technical standpoint. If controls on expenditure commitments and payments are automated, this will not only promote better transparency across government (as in the case of Ghana's districts), but also avoid the build-up of dangerous arrears. If there is a requirement for budget reports and audit reports to be sent to Parliament on time and be made public, this can facilitate external scrutiny and budget accountability. Finally, if civil service regulations limit political control over the appointment and dismissal of senior bureaucrats, SBOs will not have to fear losing their jobs whenever they are in disagreement with a politician.

In this sense, SBOs could be seen as the guardians of budget rules. Systems, rules, mandates, checks and balances, and accountability institutions all serve the purpose of better handling budget politics. The existence of strong systems allows for a better management of political pressures, and for promoting a more rational approach to policy-making as opposed to the constant fire-fighting that emerges when rules and systems are consistently disregarded. Again, in this case, the role of SBOs should not be interpreted as going necessarily against the role of politicians. Better systems can be based on decision-making processes, for example at Cabinet level, which involve political leaders at all stages of the budget cycle, bringing about better incentives and commitment to respecting the rules of the game.

Another possible avenue available to SBOs in managing political pressures is that of promoting better budget management by using some ‘tricks’ that can help them address emergencies or pressures for reallocating resources. In a number of countries, so-called contingency funds are established, often without being made explicit in budget documents to protect them from political capture, as a buffer for emergency situations. These reserves are important because they allow for unforeseen and unavoidable additional expenditures, while ensuring that political pressures do not completely derail the budget process. Such devices, however, cannot be seen as substitutes for the kind of reforms that can bring about more credibility, transparency and predictability in the management of public finances.

In the case studies cited above, however, while many of these formal rules and institutions do exist, they are often overridden by informal practices that are dictated by political imperatives and supported by a lack of transparency and accountability. As highlighted in both the Ghana and Malawi case studies, politicians have little interest in ensuring that formal systems gain strength, and in respecting civil service regulations. And when they do go against the rules, nobody is there to ask them why. In such cases, it seems that SBOs have little hope of doing a good job. Yet, even in these cases their political savvy could come to their rescue. Their position could allow them to bring together different actors with similar interests, from reform-minded politicians to donors, from progressive actors in the civil society and business arenas, and promote the formation of alliances in favour of the necessary budget reforms.

In this respect, two useful contributions come from academic observers. Helmke and Levitsky (2004) argue that the interplay of formal and informal institutions does not necessarily have to bring about negative outcomes, with informal practices trumping formal rules. In some cases, the two can be mutually reinforcing and actually contribute to limit excessive political interference in policy processes or public administration. Reformers therefore need to be aware of different ways in which such synergies can be exploited. On a different note, Schick (1998) argues that reform efforts, in order to be effective, need to focus on 'getting the basics right' before trying to move towards sophisticated systems that might sound good on paper but are not likely to result in lasting changes. His claim is that:

> Politicians and officials must concentrate on the basic process of public management. They must be able to control inputs before they are called upon to control outputs; they must be able to account for cash before they are asked to account for cost; they must abide by uniform rules before they are authorized to make their own rules; they must operate in integrated, centralized departments before being authorized to go it alone in autonomous agencies. (Schick 1998: 130)

The crucial issue of capacity

Finally, and closely linked to the quality and strength of systems, the technical capacities of the budget office are another key factor in shaping the way in which SBOs can manage political pressures. Technical capacity enables SBOs to uphold core values of neutrality and professionalism, and to carry out the policy analysis underpinning a mosre rational policy-making process. The more SBOs are capable of using unquestionable data and sharp analysis to present information to politicians, the more they will be in a position to argue for or against certain policy decisions.

Quite often, African bureaucracies are not well placed to recruit, train and retain the best human resources in the country. Budget offices, however, can sometimes offer the kind of professional working environment that can attract better-quality candidates, given their mandate and the resources they can draw upon. SBOs can play an important role in ensuring that their offices are fully equipped to do their job, and that they have the technical capacity and political clout to manage and respond to various pressures, basing their arguments on sound information and analysis.

4.2.4 The contradictory role of donors

Despite their general reluctance to consider themselves as political players, the predominant role played by donor agencies in many African countries, both in terms of the aid flows and of the technical assistance that they provide, means that they are in a position to heavily influence the budget process. In this sense, many SBOs consider them as one of the political players which they need to confront when shaping budget policy. Yet their role is a contradictory one, for a number of reasons:

- Donor priorities tend to change periodically according to shifts in global debates.[7] For example, while during the structural adjustment era privatisation and liberalisation were the mantra, today more focus is put on basic social services and governance. Globally defined priorities, such as HIV and AIDS and gender parity, also determine sectoral resource availability, with little regard for locally defined objectives.
- Despite recent initiatives on harmonisation and alignment, donor interventions tend to be fragmented and not synchronised with the government's planning and budgeting cycle. This can lead to disruption in the budget process dictated by donor requests to include specific programmes or activities. Even where donors are proving more assistance directly through the budget, their involvement in the budget process can be problematic.[8]
- Budget reforms promoted by donors tend to favour a technocratic view of budgeting systems, and the introduction of sophisticated, comprehensive reform packages that can overburden the scarce capacity existing in the public sector and run against political resistance.

SBOs are aware of the fact that they need to be careful when dealing with donors, especially in those countries where aid flows fund up to half of public expenditure. Yet there are a number of things that SBOs can do to better manage relations with the donor community, and shape their role as political actors in the budget process.

Firstly, they can work towards the definition of clearer systems and agreements that set out basic rules for donor behaviour, in order to minimise budget disruptions. Countries such as Uganda, Tanzania and Mozambique have set up elaborate arrangements, backed by memorandums of understanding that define, for example, ways to improve predictability of donor funding, the reports that government needs to provide, timetables for information sharing and so on.

Secondly, in the area of budget reforms, SBOs can ensure that donor agencies become more aware of the potential political obstacles that certain reforms are likely to face. Different budget reforms are likely to require different levels of commitment and expertise from technocrats and politicians. Developing countries and donors alike have a limited understanding of which budgeting tools are available and appropriate in which political and institutional environments, and how their implementation is best sequenced. The choice of instruments should not just depend on an assessment of institutional capacity, but also reflect an understanding of the underlying political and institutional environment and incentives to reform.

4.2.5 Conclusion

Little has been written or said about the role of SBOs in dealing with the politics of the budget process. This is partly due to the tendency, both in academic and donor circles, to approach budgeting from a purely technical standpoint, without recognising the inherently political nature of the budget process. SBOs play a fundamental role that can substantially influence budget policies and outcomes, as long as they are able to understand and manage the various actors, interests and pressures that are brought to bear on the process of allocating scarce public resources. In aid-dependent countries, including many African nations, SBOs also need to deal with pressures and requests from donors, who provide a large share of budget resources.

This paper has reflected on these issues as a way to identify some of the factors that can allow SBOs to better manage the tensions between politics and efficiency that characterise their daily work. A detailed understanding of political dynamics in the budget process, the existence of strong systems and capacity to confront undue political influence, the need to draw politicians deeper into the budget-making process, and better ways to engage with the donor community are some of the elements identified.

Without doubt, however, there are many more factors that come into play. It is hoped that this paper can generate a more open debate that recognises the importance of taking into account the political dimensions of the budget process, and their importance in bridging the gap between political objectives and the results of government action.

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Endnotes to Chapter 4

1 Tony Killick made a presentation on this paper at the Third Annual CABRI Seminar.

2 Even though, it could be argued, in many cases large deviations and leakages in budget implementation are not due to political reasons, but to other factors such as the lack of planning capacity, and scarce means to carry out routine monitoring and control.

3 For an overall summary of these three case studies, and some of their implications for donors supporting budgets and budget reforms, see DFID (2007).

4 See *Annex 1: Lessons from Higher-Income Reformers* in Krause & Vilhelm (2007).

5 This section is mostly based on the discussions held during the session on The Politics of the Budget Process at the Third Annual CABRI Seminar.

6 As Schick notes, 'it would not be surprising if some of the most esteemed and productive civil servants in developing countries are those who use their entrepreneurial and managerial skills to outwit the formal controls.' However, he also warns that 'when bureaucrats are valued for their verve in operating informally, it is easy for them and others trapped in the system to lose sight of the public purposes they are serving and the outputs they are supposed to produce' (1998:128–9).

7 As a participant in the Third Annual CABRI Seminar noted, 'One day it’s PRSPs, the next it’s MDGs'.

8 See De Renzio (2006).

5

Challenging the budget

5.1 Introduction

Three institutions play a critical role in assessing whether requests for funds by ministries, departments and other government agencies will lead to optimal achievement of policy objectives: the finance ministry, the cabinet and the legislature.

The finance ministry, usually through the budget office, challenges budget submissions to ensure that the proposed use of available resources is appropriate in terms of policy objectives, feasible in terms of capacity and will deliver value for money. The cabinet sets policy priorities and strategic direction at the outset of a budget cycle. During the cycle it has the responsibility to make resource allocation decisions in line with policy priorities, and operates as a peer review mechanism of its members' proposals and requests for funding. The legislature is formally the holder of the public purse. As the representative of the people, it has the duty to approve the use of public funds only if such expenditure is in the national interest, and if the proposed spending will lead to optimal outcomes.

These three institutions have one thing in common: a central overview of all spending proposals, which places them in a good position to assess competing spending bids.

If budgets were once-off project spending plans that allocated funds by priority, starting from a zero base, the resulting decision-making would be complex to begin with. But the reality of public budgeting is far more complex. In their day-to-day work, these institutions deal with pressure from current priorities and their proponents, as well as from past priorities and their structures and programmes.

This chapter reviews some experiences with mechanisms and processes in each of these institutions that contribute to effective scrutiny. For example, it considers the value of information on spending agencies' past programme performance, and the costs of government and service delivery aid in challenging budget proposals.

The first paper, by CABRI researcher Alta Fölscher, provides a discussion of the tools available to strengthen the ability of the budget office to challenge budget submissions and the use of programme performance information. She also reflects on the role of the cabinet and the legislature, and their relationships to the finance ministry. In the second paper Kubai Khasiani and Phyllis Makau, respectively from Kenya's Ministry of Finance and Parliamentary Budget Bureau, present a case study on the challenges of generating appropriate performance information and using it to good effect.

5.2 Roles and responsibilities in challenging the budget

Alta Fölscher [1]

5.2.1 Introduction

Despite our hopes to the contrary, budget processes are not the linear, rational decision-making streams presented in the textbooks, where decisions are made at the right time by the right people, based on comprehensive information and thorough consultation. In reality, given limited time and an infinite number of choices, budgeting is a congested and untidy process, in which proper attention to a few issues is balanced with expedient compromise on others and, frequently, decision-making by default.

Budgeting as a process is not only constrained by resources, but also by the bounded rationality of decision-makers and structures.[2] It is a process where people make decisions based on their values and interests, and the best technical instruments and mechanisms to improve decision-making are inevitably limited by these factors.

This means it is vital that different structures, and the people that work in them, have clarity on where they fit into the budget process, and what they should do to maximise rationality and good budget outcomes. These various roles must be commonly understood, inside and outside of government, in the interests of accountability.

5.2.2 Who needs to challenge the budget?

There are two important distinctions in roles related to the 'challenge function', which can be simply defined as someone asking whether the government is proposing to do the right things – and plans to do them right.

First, budget decisions represent a fusion of political and technical considerations, and a distinction needs to be made between officials and elected office holders. If a budget aims to ensure that government is accountable to the electorate, guidance and choices about what should be funded with public money should belong to politicians. Officials in line ministries and finance ministries are responsible for advising politicians on costs, issues that should be considered, options available, the opportunity cost of choices, likely effects and so on. They are not responsible for deciding what will be funded. Structuring a challenge function role for politicians strengthens the budget process.

Second, there must be a clear distinction between the role of line ministries as the users of funds, and the finance ministry as the custodian structure in the executive tasked with ensuring the health of the public finances.

The necessary roles in a budget system include:

- setting clear, achievable objectives;
- identifying what needs to be done above all else with available funding for a given time period;
- identifying other factors that will affect budgeting (such as prices, risk of natural disasters or population changes);
- assessing the future cost of government should nothing change;
- working out in detail how funds can best be used to obtain resources (human and physical) to undertake the activities and produce the desired outputs;
- assessing agencies' past performance to ensure that their proposals are feasible;
- making choices about allocating funds to different structures and/or purposes;
- collating information into an internally consistent set of numbers;
- writing about motivations and decisions so that citizens can understand how their money is being used; and
- approving allocation proposals to enable spending.

Any budgeter would be able to go through this list and allocate tasks to different structures. Officials advise, politicians decide; the finance ministry advises the cabinet on the spending envelope and a set of allocations within it; line ministries use their specific information on sector needs, costs and efficiencies to strategise within available resources and budgets; the finance ministry must ensure that cash is available to implement, and so on.

Yet while most budgeting systems include mechanisms that correspond to these tasks more or less effectively, many still fail to guarantee that the first use of available funds is to meet national priorities. Important fault lines in budgeting include the following:

- Objective-setting becomes overlapping, unclear and the domain of officials who avoid what they see as political interference in technical matters.
- Ministers avoid engagement with formal planning processes to have some flexibility later on.
- Finance ministry officials want to control the allocation of resources to the last detail because it gives them a sense of security on value for money.
- No one does enough costing, except for the budget officials who identify cost drivers among the line items and focus on managing them, without understanding how they relate to policy implementation.

The central argument of this paper is that clarifying the role of the finance ministry, the cabinet and the legislature around the challenge function in budget preparation will go a long way towards addressing these role weaknesses in the policy-budget link. In other words, as noted earlier, at each point in the budget process, someone needs to ask whether the government is proposing to do the right things right. And that someone cannot be too involved in the original decisions or they risk losing their objectivity – and the system loses meaningful accountability.

The challenge function is ultimately an institutional concern. How should the roles of key 'challengers' in the budget be structured so that they are effective. How should events in the budget process be sequenced so that the challenge occurs at the right time? What information is required? What are the tools that strengthen a challenge function? What are the challenges? The sections below address these aspects with specific reference to the role of budget offices. Throughout the discussion it illustrates points using CABRI member country examples.

5.2.3 Structuring the challenge function

In the course of the budget process many decisions need to be challenged, such as the size of the expenditure envelope, trade-offs between tax and expenditure measures, who will be taxed to pay for public services and how government proposes to finance the deficit. Of particular interest for the budget-policy link is to ask how the distribution of available resources will deliver on policy objectives.

Clearly this challenge can only be made by structures (or individuals within structures) that have an overview of all the competing claims on resources. That is the only way in which the true cost of an individual claim can be assessed, not only in terms of its internal costs and benefits, but also in terms of what other spending would need to be reduced or cut to fund that claim.

In theory there are many centralising points: top-down budgeting involves the allocation of funds to competing claims within a spending envelope at the central, central line ministry, central programme and central sub-programme levels – and so on. In practice, however, the number of formal challenges should be limited to contain the transaction cost of seeking optimal solutions.

This paper deals primarily with three key levels corresponding with how budget proposals in practice progress from being line ministry bids for funding to their approval as a legal instrument by the legislature. The three levels are:

- The finance ministry, in particular the budget office, which challenges ministries' budget submissions to support value for money and an optimal spending mix against policies.
- The cabinet, which sets policy priorities and strategic directions within a sound fiscal framework at the beginning of the annual planning process, and later decides what should be funded to realise the policy direction.
- The legislature, which scrutinises allocations and proposes amendments before approval.

If the challenge function is to be systematic, it should start from the top. When the legislature challenges the executive's budget proposal, it creates incentives for the executive to take greater care in putting together the budget. When the cabinet questions the finance ministry's spending advice, it creates the incentives for the ministry to better question line ministries. Only when the finance ministry sets a high bar for the justification of spending will central ministry management better question spending programmes.

If such incentives are absent, the budget process becomes one of weak 'satisficing'[3] – in other words, one where decision-makers and their stakeholders are satisfied with the first reasonable solution that will suffice, rather than seeking a more optimal one.

This paper focuses on how finance ministries can ensure that they fulfil their role in challenging budget proposals sufficiently. The role of cabinets is discussed in Chapter 4 of this volume (see the Politics of the Budget Process by Paolo de Renzio); the previous resource volume[4] took up the role of the legislature in more detail.

Budget officers who challenge more and budget less

As budgeting guru Alan Schick (1997)[5] observes in his note on the changing role of central budget offices in modernising systems, the role of budget officials is in no way diminished as the finance ministry withdraws from operational decisions.

Traditionally, he argues, the central budget office was a 'central command and control post, specifying the items of expenditure, monitoring compliance with regulations, ensuring that the inputs are those agreed in the budget, and intervening as deemed appropriate' (Schick 1997: 4). In modern systems, making recommendations on the allocation of resources remains the core function of central budget officers. However, how they put this mandate into operation differs significantly. In traditional budget systems, open-ended resource bids many times over the resource envelope had to be cut down by budget offices. In modern medium-term expenditure framework (MTEF) systems, such as those in place in many CABRI countries, the initiative shifts to the spending agency to propose changes to achieve sector objectives.

In the modern system, the idea is that the focus will shift from funding expenditure items to policy changes, and from a nominal review of the entire budget to a focus on how available funds are used between different agencies' new activities, and where savings can be made given spending agency performance. As Schick states, 'the trade-off becomes the main unit of decision in budgeting' (ibid.: 6). Trade-offs should be nominated by spending agencies pursuing policy performance within clear resource ceilings. The role of central government is to encourage such trade-offs by the rules it sets for the allocation of additional funds (or expenditure cuts when the budget floor needs to be lowered, given fiscal policy considerations).

In this approach, the main task of the budget office is to ensure that it creates incentives for better line ministry budgeting by effectively challenging budget proposals and bids for new spending, without taking over operational decisions. To do this, it needs to establish guidelines and procedures for proposing policy and spending changes, to maintain databases for measuring the budgetary impact of policy changes and on agencies' policy and financial performance, to advise the cabinet on policy proposals and to operate the trade-off system. It also needs to evaluate programmes and measure performance. Its purpose is not to take decisions that belong to line ministries, but to challenge ministries to provide it with better options for decision-making at a higher level.

The budget office has five key sets of tools to challenge budget submission:

- The budget guidelines which determine what new information the finance ministry will receive for its review of spending bids and budget proposals[6].
- The use of budgeting rules and criteria, such as resource floors and ceilings.
- The content and quality of expenditure analysis.
- The processes and structures at the centre to review submissions and formulate recommendations.
- The use of performance information.

These tools are discussed in detail below.

Budget guidelines, rules and criteria

Clear and articulate guidelines for preparing budget submissions provide the foundation for challenging budget submissions. They are the main instrument through which the budget office can communicate essential information to bring strategic coherence to budgeting bids – and in turn obtain the information that it needs.

Budget guidelines should require ministries to provide reliable estimates of the forward costs of their existing policies (their baseline[7] spending) and how this relates to their allocation floors rolled over from previous years' forward estimates. Effectives challenges to spending submissions are not possible in terms of feasibility (whether ministries have enough resources) or stretch (whether they have no more resources than what is absolutely necessary) in the absence of such information.

In addition, guidelines can provide ministries with a strategic objective framework within which to base their budget decisions. This provides an ideal opportunity to link the formulation of budget policy – in other words decisions about what activities of government are funded – to higher-level policy agendas.

Final core requirements for functional guidelines are the inclusion of a reliable budget calendar and clarification of the responsibilities of line ministries. Spending agencies need to understand which structures will consider bids at the centre and how allocation recommendations to the cabinet are shaped. In this way the guidelines contribute to making central allocation processes transparent, increasing spending agencies' trust in the process and their willingness to share critical information.

To set the rules of the game clearly, the guidelines need to communicate what the financial constraints are under which ministries will be budgeting. This may, as in Tanzania, include an extensive discussion of fiscal policy issues and the framework within which ministries are to budget. Many countries use guidelines to communicate spending floors and the rules for increasing these floors through spending bids. Others, such as Ghana (see box below), only issue the guidelines after ceilings have been determined.

There are pros and cons to different approaches: setting absolute ceilings below vote level removes much of the discretion of line ministries to use the budget process to bid for optimal funding of policies. It then becomes more of a financial programming exercise which may not be done well because ministries perceive the main decision to have been taken already. Not setting any limits, however, can result in bids significantly in excess of available funds, forcing decision-making back to the finance ministry and removing the incentives for line ministries to make better decisions up front.

Many countries follow an iterative process, working with the spending floors that

Setting ceilings in Ghana

In Ghana, ceilings are issued in the budget guidelines sent to ministries, departments and agencies at the start of the budget cycle. The guidelines include administrative instructions, new policy initiatives and the budget ceilings over a three-year period, broken down into personnel emoluments, administration expenses, service expenses, investment and an indication of whether domestic or donor revenue will be used.

The Ministry of Finance and Economic Planning determines the overall resource envelope based on the government's fiscal and monetary policies and targets, including those agreed with lenders. In determining sector ceilings, the following are taken into account: the relative priority of sectors, the government's role within the sector (for example, whether it is a producer of goods and services or a regulator), the funding requirements for each sector based on agreed objectives and targets, and alternative ways to achieve government objectives.

The ministry's recommendations are then taken to the cabinet, and the final sector ceilings are issued by item of expenditure. It then becomes the responsibility of spending agencies to break down the aggregate allocation to their various cost centres in line with their priorities, prepare estimates and budget documentation. Ministries are provided with support and additional guidelines to prepare the estimates and a policy review report, which becomes a key instrument for budget examiners in the Ministry of Finance to challenge how agencies have allocated their resources within the set ceilings.

In summary, setting ceilings plays only a limited role in Ghana's challenge function. However, the absolute ceiling limits spending bids and provides budget officers with more time to scrutinise how available funds will be used.

Source: Presentation by Abraham Mantey, from the Ministry of Finance and Economic Planning, Ghana, at the 3rd Annual CABRI Seminar, Addis Ababa, 28 to 30 November 2006.

rolled over from the previous year, the margin of available funds and inviting limited bids for those funds. Others issue new indicative ceilings based on a top-down allocation in line with priorities, agency performance and external costs, but which can be modified depending on ministries' arguments.

In principle, hard budget constraints allow the finance ministry to contain the proposed expenditures, forcing line ministries to seek efficiency gains and prioritise their objectives. The more constraints come with ceilings, however (for example, the specification of what can be spent on specific lines or programmatic areas), the less space there is for ministries to do the latter.

In Namibia, ministries' forward allocations are determined by their medium-term plans, which operate as budget submissions to the MTEF process. Ministries may not propose new spending bids for the first two years of the MTEF that exceed their spending limits. This forces ministries to reprioritise and seek savings to fund short-term priorities and cost overruns from their base allocations. They are, however, allowed to put forward spending bids for the outer year of the MTEF. While in principle this system should encourage ministries to be disciplined about forward costing and budgeting for the medium term, the predominance of the annual budget process and options within that to put forward 'non-scheduled' bids for additional resources undermine these incentives.

How well ministries use budgeting rules depends not only on what the rules are, but also how the finance ministry enforces them and encourages trust in formal processes, so that spending agencies are honest about their requirements. The way in which expenditure ceilings are set and enforced is particularly important. For example:

- Are ceilings set at line ministry level for each year of the planning period?
- Do ceilings cover all aspects of a ministry's expenditure?
- Are ceilings specified at an aggregate level of economic classification, or do they constrain ministries with regard to some or all of these items?
- Do ceilings include revenue from all sources?
- Can the finance ministry cut proposed expenditure, or suggest cuts?
- What support do line ministries receive for defining and costing activities and preparing their budgets?
- Are resources sometimes allocated outside of the formal ceiling process?

Analysing budget submissions

There is no absolute 'correct' way to analyse budget submissions. All analysis involves the will to find reasonable answers to key questions, quality information and data, and good judgement in the use and manipulation of the data. The most important aim of the analysis is for budget examiners to ask challenging questions of the data submitted. The purpose of this is to strengthen the quality of line ministry planning to ensure that allocations of public resources link transparently to the government's policy objectives.

Key questions that budget examiners should be asking include:

- What does the programme provide, to whom, subject to which criteria and for what purpose?
- Do outputs and activities relate well to the policy objectives?
- Are the unit costs realistic over the medium term? What are the key drivers of costs? Are the assessments of risk realistic?
- Are all revenue sources included, for example donor financing?
- Does the department have the capacity to spend the funds?

Budget examiners should also run standard analyses on spending agencies' allocations, their actual spending patterns, outputs and achievements. For example:

- Calculating real growth in allocations at different levels to assess whether allocations are keeping up with the cost of providing services. If they are not, a budget examiner needs to ask whether a drop in the level or quality of the service is acceptable, given government's and the agency's objectives.
- Comparing original budgets to actual spending and analysing how and when spending allocations change during the year. This will reveal the quality of an agency's internal budgeting processes.
- Watching spending shares and calculating how additional resources have been allocated to shift (or maintain) spending shares. This should again be related to government and ministry objectives.
- Calculating the unit cost of key outputs and how this changes over time.
- Calculating the cost of providing services per beneficiary, how this changes over time and how it is affected going forward.

To undertake these tasks, budget examiners need access to shared databases on the cost of government, expected changes in key factors such as prices and population growth, and up-to-date information on factors such as personnel policies and constraints. Budget examiners also need to build their own databases, which should include at a minimum careful record-keeping of their exchanges with agencies so that past spending decisions have an impact on future ones when required; sector-specific outcome data, such as crime statistics; sector-specific cost data; and comparable information from other countries or regions.

The box below on South Africa's approach to challenging budgets illustrates how some budget examiners have gone about systematising their task.

Structures to challenge budget submissions

Countries use different structures to examine budget submissions and to make expenditure recommendations. Not all countries have formal hearings as discussed in the South African example. Some use internal finance ministry committees that operate without hearings to examine bids. The Kenyan system makes use of such an arrangement, but it has also decentralised the challenge function that is usually fulfilled by structured hearings. The Ministry of Finance and the Ministry of Planning manage a number of sector working groups responsible for allocating resources within ceilings to sector departments. The working groups include sector ministries, donors and relevant civil society organisations. Peer review plays an important role here, with ministries challenging each other and negotiating trade-offs over the medium term.

Uganda, Rwanda and Tanzania also make use of sector working groups. In Tanzania they are supplemented by thematic working groups – while ministries are still responsible for their spending submissions (in the form of sector policy papers), they have to work with their working group assessments in putting these together. These groups provide significant challenge and co-ordination mechanisms. Tanzania's budgeting process is structured around the budget guidelines and a strategic budgeting allocation system, which assists the finance ministry in its information management tasks (see Chapter 3 for more detail). The sector and thematic working groups are perfectly aligned with the pillars of the new poverty reduction strategy, further facilitating a strong link between policies and budgets. The submissions that come from line ministries in systems such as these act as powerful information vehicles for budget officials insofar as they have already benefited from informed sector reviews by the time they reach budget officials. Whichever choice is made, it is important that the composition, roles and responsibilities of the structure is clear and widely understood.

Another institutional structure factor is how the finance ministry is organised. Some ministries separate oversight over policy formulation and the monitoring of policy performance from the role of budget offices, which are tasked with spending decisions. As the case of Rwanda illustrates (see box on next page) such separation may cause overlapping roles and responsibilities. In Kenya, where two ministries are involved, this has resulted in multiple demands for similar reports and analysis. The net effect is the undermining of any one instrument or report.

A South African approach to challenging budgets

South Africa's National Treasury provides recommendations to the cabinet on how revenues should be allocated, firstly between national, provincial and local government based on policy priorities, and secondly among departments at the national level. The National Treasury also provides the technical guidelines for budget submissions and evaluates those submissions.

At the national level the National Treasury manages the Medium-term Technical Committee (MTEC) process, into which the evaluation of national department budget submissions feed, and which is the structure that recommends allocations to cabinet. Similar committees operate at the provincial level with National Treasury representation. The Presidency and other key ministries also serve on the MTEC. The resulting recommendations are made by all the central ministries. This strengthens their legitimacy and acceptability to line ministries. The MTEC holds hearings in which departments are required to defend their spending bids and budget proposals. The National Treasury engages with the cabinet subcommittee that discusses budget options in depth, and in turn makes recommendations to the full cabinet.

Through their reports to the MTEC, budget examiners play an important role in ensuring quality spending recommendations. Their effectiveness is a function of how well submissions are prepared. In 2007 – for the 2008/2009–2010/2011 MTEF – budget submissions had to include the following: the amount requested per year; quantification of service-delivery issues that the ministry would address; an explanation of the strategic significance of bids given the national policy agenda as set out in the guidelines; an evaluation of existing and recent interventions; the effectiveness of solutions and an appraisal of options; detailed costing; the specification of deliverables; an administration plan; an implementation plan; a risk analysis; the monitoring and evaluation framework; and a set of annexures that provide detailed financial and non-financial information. These annexures may change from one year to the next.

Budget examiners rely on past spending bids, strategic plans and annual reports for spending agency specific information. They work in sector teams, which means that central sector-specific non-financial databases can be shared.

Some budget examiners have systematised how they approach their assessment of bids by establishing a consistent and coherent scoring system. This also helps to make decision-making more transparent.

The table below shows how this system works. Each initiative is listed together with the amount required for it over the medium term. It is then scored against 10 weighted criteria and a percentage rating assigned to the initiative.

Evaluation of initiatives														
Description of initiatives	Amounts requested R(000)			Evaluation criteria										Ratings
	2007/08	2008/09	2009/10	1	2	3	4	5	6	7	8	9	10	(%)
Initiative No.1	10 000	11 000	12 000	2	2	2	1	1	0	1	1	0	1	85%
Initiative No. 2	100 000	200 000	300 000	2	2	2	1	0	1	1	0	0	1	77%

The 10 criteria are as follows:

1. Is it clear that the initiative contributes to government policy priorities? (Yes = 2, No = 0)
2. Has the department provided credible service delivery information with initiative submitted? (Yes = 2, No = 0)
3. Is the initiative aligned to the core functions? (Yes = 2, No = 0)
4. Have alternative policy options been considered? (Yes =1, No = 0)
5. Has the department undergone a thorough reprioritisation with a view to fund part of the initiative from within budget? (Yes = 1, No = 0)
6. Is the costing/initiative realistic? (Yes = 1, No = 0)
7. Has the department consistently underspent its budget (by a margin of more than 3 per cent) over the last 2-3 years? (No = 1, Yes = 0)
8. Has the effect on other entities/individuals been considered? (Yes = 1, No = 0)
9. Are the risks manageable? (Yes = 1, No = 0)
10. Has there been adequate political involvement in the budget formulation process? (Yes = 1, No = 0)

Criteria 1–3 must be satisfied in order for a spending bid to be considered. Bids are unlikely to be funded if a combination of the following factors are present: if they are already funded in previous MTEFs and changes to funding are not justifiable; when they are not directly linked to stated priorities and functions; when they are not properly planned and costed, or when there is evidence of underspending or unwise spending.

Bids that score well in the system and fit within the resource envelope are fully funded. Of course, this system works well for new spending bids, but is less applicable for assessing how spending floors are used and what spending baselines are. For these purposes the routine tasks of budget examiners include an exercise of examining floors against expected baselines and the growth of floors of other agencies.

Source: Brown, K & De Bruyn, J (2007) Policy and Budget Analysis. Presentation at the June 2007 World Bank Institute and CABRI study tour of the South African National Treasury, CABRI, Pretoria.

Restructuring Rwanda's Ministry of the Economy and Finance

Since 2002, Rwanda has taken major strides towards building a modern public finance management system. The introduction of an MTEF was followed by the gradual implementation of a performance orientation.

One result of these reforms was that the demands on the finance ministry called for the careful deployment of very specific analytical skills. Another requirement was for sector focal points. Only by combining these two demands would the ministry be able to follow sector activities (strategies, annual sector reviews, key priorities and issues and discussions with donors) and challenge the degree to which proposals made the link between plans and budgets. The provision of quality internal inputs into ministry processes to develop defendable allocations also depends on individuals having the necessary depth of knowledge. Sector focal points will also address the need to integrate and streamline the respective roles of the planning and budgeting departments.

Source: Baingana E (2006) Challenging the Budget: creating incentives for results. Presentation at the 3rd Annual CABRI Seminar, 28 to 30 November, Addis Ababa, Ethiopia.

A clear requirement notwithstanding the choice that is made with regards to the structure of the ministry, is the need to employ more people with broad-based analytical skills. It is worth noting that Schick in his 1997 paper (see reference above) talks about the role of budget offices in assessing policy change, not spending change. This recognises the reality that the budget process does not involve merely putting numbers to decisions already made, it actually is the only process – at all its different levels – in which policy is really made. It is therefore critical that the skills base of the ministry of finance, as custodian of the process, compiler of recommendations on allocations and challenger of ministries proposals, should include deep analytical capacity.

Performance information and public expenditure reviews

Finally we come to performance information, public expenditure reviews and other tools that help bring information on policy achievements to the table.

The paper on Kenya's intentions to move to a programme-based performance budget (see next paper in this Chapter) contains a thorough discussion on why a performance orientation is necessary to improve incentives. In the context of this paper it suffices to say that comparable performance information across spending years is essential for effective scrutiny of budget submissions.

Public expenditure reviews (PERs) and other regular, systematic instruments of policy review and performance evaluation are equally important for the challenge function of finance ministries. Within the space of a budget cycle, there is little opportunity for in-depth review of a department's expenditure and policy performance, or the underlying systems of budgeting and financial management. This makes it necessary, at least occasionally, to undertake tailored reviews that can provide such information. The PER instrument, and variations of it, is ideal for the task.

Some CABRI member countries have gone a step further and institutionalised PERs as a feature in the annual budget process. Such PERs can be carried out by ministries themselves (as in Kenya, where ministerial PERs provide input into sector processes and a national PER), by sector groups (as in Tanzania, where sector PERs feed into budget planning and a national PER) or undertaken by the finance ministry (as in Rwanda, where sector PERs commissioned by the ministry may soon become a regular part of the budget process). Donors also commission PERs, or conduct them jointly with governments (as in Malawi, where the first set of PERs was undertaken as a joint exercise).

Among the initial lessons learnt from the use of PERs is that when these reviews become a standard feature of the annual budget process, they can too easily become compliance documents and lose their power as strategic, analytical interventions. Because they are such complex undertakings, they are often completed too late to feed into spending decisions, and usually they overlap with other instruments such as ministerial policy papers. PERs are often produced without the 'ownership' of the structures that are supposed to own them, such as sector working groups. To deal with some of these consequences, Tanzania is proposing that sector PERs should become much more focused and examine specific issues relevant to the year's budget challenges.

PERs are not the only review instruments used. As noted earlier, Uganda, Rwanda, Kenya and Tanzania all employ sector working group reports or sector policy papers to install a culture of self-review and evaluation in the policy and budget system. Many countries also use strategic sector and ministry plans as avenues for the examination of past performance.

As systems develop the use of performance audits – tailored, robust studies on all or different dimensions of policy performance by independent agencies such as the supreme audit institutions – will become highly relevant to the challenge function. Performance audits use evaluation methodology to assess the performance of specific programmes or specific institutions against their objectives. They are highly evidence-driven and produce good insights with regards to different type of failures in the chain from policy to service delivery through budgets.

In the last decade public expenditure tracking reviews have offered ministries of finance good information on where and how operational failure occurs. These studies track spending from the allocation and disbursement of funds to the final point of delivery where public monies buy goods and services for consumption by citizens. They identify critical leakages and operational shortfalls, all valuable information for budget examiners when they have to assess ministry submissions.

Ministries of finance therefore have several well-developed and tested tools with which they can bring more in depth understanding of why spending does or does not result in the expected achievements of policies. What remains is for the inclusion of these tools in their practice, either as regular although not necessarily annual exercises in the budget process or by institutionalising periodic reviews through the creation of an evaluation unit.

5.2.4 Conclusion

Finance ministries play a crucial challenging role in the budget process. The main factors in determining the effectiveness of this challenge function include how they set up their internal processes; how they work with other structures to bring more legitimacy to decisions; what information bases they maintain; what new information they request; what information they provide to spending agencies in the budget guidelines; and ultimately what questions they ask when assessing spending submissions and meeting with spending ministries.

Finance ministries are not the only bodies with a challenge function: cabinets and legislatures usually have the real constitutional mandate to challenge spending plans.

Budgeting is a political exercise; it starts with political choices about the priorities and ends with political choices about which programmes and projects get funded to what extent based on those priorities. The responsibility for these political choices is shared by the executive and the legislature. Ultimately, as Santiso and Belgrano state,[8] the governance of the budget reflects a delicate balance between executive power and legislative oversight, the effectiveness of which is largely determined by the broader mechanisms of budget policy-making and structural capacity constraints.

In practice, however, cabinet members do not always take an active interest in the formal budget process, believing it to be a largely technical exercise that will almost automatically result in optimal decisions as long as due process is followed. Parliaments have also been weakened by the perception, based to some degree in reality, that parliamentarians cannot really be trusted with the purse strings. Many systems acknowledge their formal role in approving allocations, but have placed severe restrictions on what the legislature may or may not alter.

Ultimately, how cabinets and legislatures behave is a function of the incentives that they receive, which in turn is based on formal requirements in the budget process.

Most CABRI member countries already have mechanisms in place to involve the cabinet more meaningfully in the budget decision-making process – Ghana, Rwanda, Tanzania, Malawi, Kenya, Nigeria to name a few. It is, however, unclear how effective these mechanisms are. With the exception of Uganda, Tanzania and Kenya, where legislatures have either flexed their muscles for a greater say or have already been given a greater role, legislative participation remains weak.

Improving the engagement of the cabinet and the legislature with the budget is about reforming the budget process and guiding further reforms within these structures: a responsibility of the finance ministry. Similar to building a new role for the budget office, it is about establishing a centralising, disciplined process for making allocation decisions within the structures; putting in place internal structures with capacity; ensuring good information flows; and establishing the rules of the game. This is more challenging with cabinets and legislatures, because it involves convincing and negotiating with cabinet offices and parliamentary secretariats. However, it is critical for strengthening the budget policy link.

5.3 Managing people through systems: Improving incentives for strategic budgeting in Kenya

Kubai Khasiani & Phyllis Makau

5.3.1 Introduction

The national budget is a reflection of the philosophical, legal, social, political and economic aspirations of a nation, and provides the framework within which these are to be prioritised and financed in an affordable manner. The budget is the single most important mechanism available to any government to meet its objectives.

The national agenda can only be fulfilled if there is a strong link between the budget and national goals. The budget-making process, in addition to its technical and financial aspects, needs to be comprehensive and transparent, and provide a high degree of accountability to the citizens who finance it through taxation. An effective, comprehensive and transparent budget process inspires confidence in the management of public finances and enhances ownership by citizens, leading to better outcomes.

In practice, these objectives are difficult to achieve. At both the national and sector levels narrow agendas, entrenched spending entitlements, employment contracts between the state and its staff, contracts with private-sector service providers, agreements with donor parties and many other factors can weaken the link between how funds are used and national goals.

Such pressures manifest differently from country to country. This paper discusses recent developments in the Kenyan budget process that are aimed at managing these real and unavoidable influences on budgeting choices. The Kenyan government is grappling with how to align incentives at the sector level with the urgent need to make optimal use of scarce resources for national development.

This paper begins with a brief overview of the concept of a strategic budget process, and discusses why systems to manage public expenditure need to be led and redirected, not merely turned over from year to year. It then applies these principles to reform initiatives under way in Kenya – in particular, the efforts to introduce programme-based performance budgeting. The paper discusses the history of budget reform efforts to date, and the challenges to successful implementation of these reforms.

5.3.2 Common principles

Since the 1980s the theory and practice of public budgeting has evolved to take account of new perspectives on the state, optimal management of the bureaucracy and budgeting processes. Budgeting is no longer seen as the purview of a few technical experts who impartially assign allocations according to decisions made elsewhere. While technical expertise remains important, it is not sufficient to ensure good outcomes. Budgeting itself is a strategic and political process – and in many ways, it is this process that ultimately counts.

Objectives of a strategic budget process

The main function of the budget process is to make choices between competing claims on limited public resources. To do this, the process must bring together all existing claims and all potential future claims in an ordered manner. Government cannot properly assess the optimal mix of expenditure outlays if it is not aware of all options, and their costs and benefits, when making spending decisions.

A first principle for the budget process is that the choices should be informed by the government's strategic policy priorities. On the one hand, decisions about spending should not be made without an assessment of how spending will support important policy objectives. On the other hand, policies should not be decided without reference to what can be afforded. In essence, budgets and policies should be decided together, and this places the budget process at the heart of the government's development objectives. The budget process must reconcile the constraints of affordability with the need for more and better public services.

This is not an easy task: it involves diverse and complex information and multilayered decision-making. Traditionally, governments have managed this complexity by budgeting in an incremental fashion: new claims on resources are simply added to existing spending baselines. Traditional budget structures have not successfully linked resource allocations to policy priorities: such budgets have been structured according to administrative units and line items, a reflection of the priority placed on the budget's function as an input control and accounting tool. Programme structures that link allocations to the expected policy achievements have been absent.

In addition, policy development and financial planning were separated at all levels of government, with planning units working in the absence of resource limits, and budget officers working in isolation to allocate available resources to different inputs. Budgeting in this setup was seen as a technical exercise best left to the technicians.

Systems such as these resulted not only in increasing deficits and debt-service burdens, but also in poor spending quality.

A modern approach to budgeting seeks to address these critical shortcomings. Its aim is to ensure that the structures, processes, rules and instruments used to decide between competing claims on resources will deliver the best strategic mix of outputs, given a government's development priorities and available resources.

Objective of public finance management

The objective of public finance management is to promote prudent, efficient, transparent and accountable management of public resources, with an overall aim of supporting economic growth and social and economic welfare. Prudent public expenditure is predicated on fiscal discipline, honesty, flexibility, transparency and accountability. The quality of public financial management is determined by how well the following basic questions are addressed:

- What are the objectives of government policy, and what activities are necessary to achieve them?
- Who should be carrying out these activities – central government, local government or alternative service delivery mechanisms?
- How should these activities be carried out to ensure greatest effectiveness and cost-efficiency?

Legislation and regulations

A good public finance management system operates best within a legal and operating structure that is associated with good financial governance. Key structures and institutions need to be in place and empowered to operate efficiently and independently within that structure. They must be supported with trained personnel and resources. A country's Constitution sets out the basic framework of the accountability relationship between the legislative and executive arms of the government in terms of finance.

Specific attributes of a good public finance management system include:

- A clear constitutional mandate given to institutions such as the legislature, the executive and the judiciary.
- Clear separation of powers between the various institutions, guaranteeing financial oversight by the legislature.
- An entrenchment of the public finance legislation in the Constitution or the existence of an organic budget law[9].
- Clear legislation, rules and regulations established with regard to public finance management (such as budget, audit and procurement) with appropriate and effective sanctions for non-compliance.
- Appropriate, integrated information technology systems that support efficient communication and public service delivery.
- Legislation, rules and regulations that are explained to all public officers and easily accessible by the public, accompanied by clear policies and operating procedures.
- Simple, clear instruction manuals, regularly updated and easily accessible to all public officers.

5.3.3 The Kenyan experience

This section examines how reforms to Kenya's budgeting system are taking into account the insights presented above.

Public policy and budgeting in Kenya have long been plagued by a disconnection between national policy goals and actual spending. Even when budgets were aligned with policy objectives, spending still veered off course, resulting in a widening gap between actual and desired spending outcomes. For example, in the late 1990s, the continued practice of incremental budgeting resulted in a thin distribution of resources. In the development budget the consequence was a decreasing rate of project completion, culminating in a 3 per cent completion rate in 1997. This was despite earlier efforts to reform budget and development planning.

By the late 1990s it had become clear that financial management in the public sector was not facilitating economic growth and poverty reduction. Every internal or external review of public finance in Kenya pointed out that the budgeting process was not supporting the government's agenda for creating a viable environment through the provision of infrastructure and other services that were necessary for a faster and sustainable economic growth. This set the context for a new round of budgeting reforms.

Past and present reforms

According to the Constitution of Kenya, the Minister for Finance is responsible for the preparation of the annual estimates of revenue and expenditure and laying them before Parliament by 21 June every year. The minister is also accountable to Parliament for the prudent management of the budgeted resources.

For a long time absolute secrecy was maintained in the preparation of the national budget. This secrecy was rooted in the controlled economy of the time. Price controls required that the budget remained under wraps until the day the minister presented it to Parliament to ensure there was no speculation, hoarding of goods or artificial shortages. The expenditure estimates were also shrouded in the same secrecy despite having nothing to do with price changes.

Since Kenya attained independence in 1963 the budget process has undergone a number of reforms. These measures were all undertaken in an environment in which the budget process was inherently weak, resulting in poor delivery of services and a failure to satisfy the overall objectives of the national agenda. The main reforms have been in the general area of budget allocation and use of resources, ultimately targeting the promotion of economic growth and national development. The reforms include the Programme Review and Forward Budget, the Budget Rationalisation Programme and the Public Investment Programme.

These reforms, however, were piecemeal. While addressing important elements, they did not result in a good overall budgeting system. Given the interdependence between fiscal policy, budget allocations and the demands made within a fiscal year, the government realised that a more holistic approach was required, and in the early 2000s it introduced a medium-term expenditure framework (MTEF) and a new cash budgeting system. These were soon placed within the Public Finance Management Reform Programme, a strategy for redirecting budgeting and financial management which recognises that different elements in the system are interdependent, and that progress in one area cannot be made unless there is simultaneous progress in other areas.

The MTEF ushered in a consultative budget process that includes public hearings.

The issues raised during public consultations are reviewed by the Treasury and are included in the final sector reports, which form the basis of the annual and medium-term estimates. The MTEF process includes the provision of a series of public documents that tracks a linked strategic fiscal policy and budgeting process at ministry and central level, resulting in a clear framework within which the detailed annual budget estimates are prepared.

Despite the introduction of these reforms, budget credibility – the link between the spending proposals contained in the budget and how resources are actually used – still faces a number of challenges. The MTEF, though meant to realign operational planning and budgeting to policy, is yet to deliver substantial benefits. A continuing problem is the lack of a clear prioritisation framework within which senior budget officials can respond to spending agency budget requests and optimise their advice to cabinet on allocations.

Resources are still distributed too thinly, partly on account of national medium-term spending rigidities such as personnel cost, but also because ministries themselves do not have appropriate incentives to make choices between existing costs and new spending programmes. Almost without exception, government spending agencies have failed to build the necessary capacity to cost existing and proposed spending programmes, undermining the optimal allocation of resources within their spending envelopes. At the agency level, this leads to spending disruptions that tend to negate whatever work went into a strategic budgeting process. At the national level, it disrupts efforts to improve cash management and results in various emergency demands. The rate of stalled projects has declined but remains unacceptably high.

The MTEF was a measure to improve the translation of government policies and plans into a coherent multiyear budget. However, weak links between the budget, policy and planning persisted. In the context of Kenya's new platform approach to public financial management reform it became clear that the reason for the lack of delivery was that the underlying budget structure – a detailed administrative line item budget – did not support a linkage between the MTEF and actual spending. This meant that spending, which can only occur for the purposes that Parliament has approved, occurred along lines of classification that did not feature sufficiently in the strategic budgeting processes.

To put it simply, despite attempts to link the budget to national priorities, the focus remained on inputs, which made it extremely difficult to measure performance and to determine the extent to which the budget was fitting in with plans and policies.

In light of these factors the proposal to adopt programme-based budgeting, with the necessary reforms to the budget and accounting structure, has been embraced over the past couple of years. The necessary studies were undertaken in 2006, making an introduction of the reforms for the 2006/2007[10] budget possible.

Basic requirements for programme performance budgeting

The MTEF: The government recognises that the introduction of programme-based budgeting will strengthen the impact of the MTEF process, and overall budget preparation. The MTEF itself is one basic requirement of a programme-based budget. However, learning from earlier experience with narrow, partial reforms, the government realised that the introduction of programme budgeting would only succeed if supported by a range of other system characteristics.

Budget structure: The second basic requirement is the budget structure. In 2005 the government adopted the Government Finance Statistics 2001 Framework. The budget is now presented using an internationally accepted statistical framework that enables uniform analysis, reporting and comparability.

Human resource capacity: Creating the necessary capacity among all accounting officers is the third key element of programme-based budgeting. Programme budgeting is not only a function of the Ministry of Finance. It is also linked closely to the continuing programme of performance contracting, in which all accounting officers are required to sign contracts with reviewable benchmarks.

Introduction of performance contracting: In 2005, the government introduced a new management system that requires the public service to shift focus from inputs to results. All accounting officers now work within the terms of a performance contract that must be signed against specific achievable targets. Each ministry is expected to prepare its strategic plan and identify its mission, objectives and functions. Using this information they must determine annual targets to be achieved within their specific mandates. Performance indicators are determined and given a timeline, weighted and reviewed regularly. The results of the review are released and ministries are ranked in terms of performance. Performance contracting was initiated as a response to poor service delivery by the public service. This reform has instilled a competitive spirit among the ministries and departments, improving performance. This positive change in attitudes provides an additional building block for programme-based budgeting.

Transparency: A credible budget system requires not only an effective and politically anchored mechanism to decide on funding priorities – it is also founded on essential financial systems that allow the budget to be used as an efficient tool. In addition, it requires a process that allows consultation and can be properly documented. Programme-based budgeting instils the necessary dynamics for enhanced transparency and accountability in the budget process. Transparency and accountability are the foundations of improved budget credibility. The major reforms that have accompanied the MTEF process have been geared towards making the budget process more transparent and accountable. To improve the sharing of information with all stakeholders, the government introduced the Budget Outlook Paper, a public document published early in the process that projects key macroeconomic indicators for the coming year. Another innovation is the Budget Strategy Paper, which firms up the macro framework and ceilings before the budget is published.

The organic budget law: The Constitution puts in place checks and balances between the executive and the legislature and establishes the framework for administration of public finances. The basic principle is that only the executive can initiate action that commits the government to financial obligation, but that action can only be undertaken after it has been approved by Parliament. There is currently no legal provision for regulating the budget process. This omission has led to the enactment of a number of laws affecting public finance management that are inconsistent with the Constitution.

The government has recently responded to the need for a transparent legal budget framework by drafting an organic budget law. However, the executive has not been alone in realising the necessity and urgency of a clear, comprehensive legal framework for budgeting and financial management. Parliament, from its own perspective of oversight and as 'keeper of the purse', has undergone a parallel process. As a consequence, each has introduced its own bill aimed at regulating the budget process. While there may be some variations in the structure and content of the two bills, both are underpinned by the need to enhance transparency and accountability in the budget process. Both include the following fundamental principles:

- The executive must be prudent in its macroeconomic and fiscal policy.
- 'Prudence' should be defined by the Minister for Finance, subject to parliamentary approval.
- The Minister for Finance should develop a macroeconomic and fiscal policy framework, to be submitted to Parliament for annual approval, along with macroeconomic and fiscal forecasts.
- The policy framework should be linked to the budget through a medium-term framework, which should be submitted to Parliament by 1 March each year.
- The Minister for Finance must approve all estimates before submitting them to Parliament.
- Detailed budget proposals and background policies for the following year are to be presented to Parliament by 20 June of each year.

The bills also call for control over borrowing and guarantees by giving Parliament the power to approve the overall ceiling for government borrowing. The parliamentary bill also created institutions which can assist Parliament with the analysis of budget proposals. While the outcome of the parallel introduction of a framework law is still in the balance, it is clear that when the law is finally enacted, the executive will be able to establish a programme-based structure within the budget. Parliament has recently established a budget office, the principal role of which is to support its members in interrogating budget proposals submitted by the Treasury. While a programme budget will support legislative scrutiny for policy effects, technical capacity in Parliament will enhance the effectiveness of a programme budget.

5.3.4 Challenges

Programme-based budgeting is still in its infancy in Kenya. In 2006, the Minister for Finance announced the government's intention to move to performance-based budgets. The 2006/2007 budget process entailed the determination of programmes for each sector and for specific ministries. This process is expected to culminate in a programme-based sector budget, from which the annual itemised budget will be crafted. The foundations for programme-based budgeting are only now being laid and much more work is required.

This section discusses some of the challenges that lie ahead if programme performance budgeting is to shift incentives so that ministries are willing and able to make expenditure decisions in line with their stated spending priorities.

A performance orientation

Kenya does not yet have a budget linked to performance. The performance contracting now in place is not anchored on ministerial strategic plans and objectives, so it can hardly be said to be a performance measurement of the budget. What is, however, acknowledged is the impact of the performance-contracting exercise on the attitude of the Kenyan public service in preparation for moving to programme- and eventually performance-based budgeting.

Bringing an effective performance orientation to budgeting depends on a number of factors, such as Parliament demanding performance, clear formulation of objectives and performance targets, effective performance information systems and an integrated, streamlined national monitoring and evaluation system. Some of these elements are emerging already. The ministerial public expenditure reviews are initial attempts to define what performance is expected of each agency. A national monitoring and evaluation framework has been put in place. Parliament is building the technical capacity to make its interventions more conducive to national spending coherence.

Much work remains to be done, however, to make the budget an instrument of performance. The formulation and refinement of effective budget performance measures is a long and iterative process. Changing practices so that these measures really count is another challenge. Aligning systems designed by different agencies at the central level is also fraught with complications.

Building effective sector processes

Another key challenge is the need to deepen the MTEF process so that sectors approach their own planning and budgeting as 'mini' MTEF processes. The establishment of programme budgets with increasing, functional performance orientation is aimed at creating the right incentives for these processes to develop. At the same time, however, these processes are critical in making programme budgets effective instruments of the policy budget link. This means that the Ministry of Finance will need to provide significant support to sectors in the development and use of programme budgets.

One aspect of this has been the development of a detailed operational manual that will assist spending agencies to use the strategic budget process instruments, to cost their strategies and activities, and to make informed trade-offs. However, a manual can easily end up gathering dust on a shelf. A further challenge is to use the manual as an instrument to build capacity. Managing such a mandate at the same time as a demanding annual budget process is an important capacity issue for the ministry itself.

Other practical challenges

In preparing to move to a performance-based budget, there are a number of additional challenges. These are reviewed below.

Public pay, performance contracts and budgeting incentives: Kenya's current public service pay policy does not provide for a reward structure based on incentives. As performance culture is instilled in the public service, it will be critical to review the incentive structure, acknowledging the dangers of linking pay directly to budget performance. While these issues are not directly within the mandate of the Ministry of Finance, it will tailor its inputs into reform processes to align with the establishment of a performance orientation in budgeting.

A rigid budget structure: The chart of accounts will need to be updated to accommodate the new level of budgeting. Though this is already under consideration, the challenge will be to gain parliamentary approval for the new programme-based structure. Parliament has in the past been reluctant to accept changes to budget structures on account of its familiarity with the current structure and work processes.

It will be important for senior budget officials and their political leadership to motivate to Parliament how a programme structure will assist, rather than hinder, its oversight duties. An important factor that needs to be communicated clearly is that a programme budget does not take away information that Parliament has at its disposal; instead, it provides a window on that information that makes it clear how spending is related to policy objectives.

Lack of a functioning integrated financial management system: An Integrated Financial Management Information System (IFMIS) is being developed but – as has been the experience in many other countries – the system takes time to be fully institutionalised. The performance of IFMIS is still suboptimal and this presents a big challenge. A working IFMIS is necessary to ensure the production of timely reports that can feed into the monitoring and evaluation system. Similar to the capacity challenges of introducing functional sector MTEF processes, the institutionalisation of the IFMIS requires deliberate strategies from the Ministry of Finance.

Lack of an organic budget law: The current budget is governed by the Constitution and other subsidiary acts of Parliament that do not fully address all financial issues. Other countries have a dedicated law that regulates the budget process and provides for managerial flexibility, while at the same time maintaining the credibility of the budget. As discussed, Kenya has made progress towards the enactment of such a law, but the process is not yet complete. Getting agreement on a bill is as much a political as a technical challenge and will require careful cooperation between the ministry's technical staff and political leadership.

5.3.5 Conclusion

Budget reforms are introduced to create effective systems guaranteeing that the limited resources available are transparently allocated to priorities, openly accounted for and managed for optimal value for money. The move to programme-based budgeting in Kenya is informed by the desire to attain this ideal.

This paper has set out why performance-based budgeting is a necessary step towards improving the link between budgets and policy in Kenya; it has also discussed why achieving a functioning system is no simple matter. As senior budget officials, however, we take courage from the fact that the introduction of such reforms has not been a quick process in any country. The Ministry of Finance is prepared for the many iterations that will need to occur, and realises that at times it will seem as if it is making little progress. The existence of a clear reform strategy for public finance management is key to ensuring progress towards the ideal over the medium to long term.

Endnotes to Chapter 5

1 With grateful acknowledgement of Aarti Shah's guidance in the development of this paper. The CABRI secretariat guidelines for the 3rd Annual CABRI Seminar were also an important source.

2 Bounded rationality refers to complex decision-making processes in which those making decisions do not have the cognitive capacity or time to process all permutations to bring about optimal results.

3 The term 'satisfice' was coined by political scientist Herbert Simon, who recognised that complex decision-making involves too many factors to be processed adequately. As a result, decisions often result when the first satisfying and sufficing solution is found.

4 See Fölscher A (2006) Policy, budgeting and oversight: the role of the legislature, in *CABRI Annual Seminar Series Volume 2*, www.africa-sbo.org

5 Schick A (1997) *The Changing Role of the Central Budget Office*, OECD: Paris.

6 For the purpose of this paper a distinction is made between spending bids and budget proposals. The first refers to new policy proposals that ministries put forward for funding; budget proposals are how the ministry proposes to spend the resources within its existing allocation floor.

7 Note that some countries use the term baseline to refer to the spending floor that ministries can reasonably expect given their forward MTEF allocations in previous years. The use of the term baselines however is best reserved for the forward cost of ministries' existing policy and contractual commitments, which may or may not be equal to their allocation floors. Making this distinction allows for better budgeting because it gives ministries the option to reduce their baseline to less than their spending floor, creating room for funding new priorities.

8 Santiso C & Belgrano A (2004) Legislative Budget Oversight and Public Finance Accountability in Presidential Systems, SAIS Working Paper Series, WP/01/04, Paul H. Nitze School of Advanced International Studies (SAIS), The Johns Hopkins University, Washington DC, p. 2.

9 A law that provides a schedule and procedural framework by which the budget should be prepared, approved, executed, accounted for, and final accounts submitted for approval. Its purpose is to provide a high-level legal framework for budgeting and financial management, within which lower-order regulations and other administrative instruments such as treasury circulars can be developed to regulate the specifics of the process from year to year.

10 Kenya's fiscal year starts on 1 July.

6

Developing systems and instruments for monitoring and evaluation

6.1 Introduction

This chapter discusses the role that monitoring and evaluation systems play in assessing government performance against targets.

Monitoring and evaluating the appropriateness and effectiveness of state interventions are integral components of the policy-budget cycle. In turn, these tools provide important information to hold accounting officers in line ministries and decision-makers in the executive to account.

Monitoring and evaluation are distinct but connected analytical exercises. Monitoring instruments provide standing checks to assess progress against financial and non-financial performance targets. The information that flows through these instruments reflects the extent and type of actual spending against budgeted projections; goods and services purchased under the spending plans; and whether the intended objectives of expenditure are achieved. These instruments are designed to operate at set intervals, whether monthly, quarterly or annually.

Evaluation goes a step further. It considers not only whether spending plans are being implemented, but whether they are being implemented correctly and are suited to overall policy objectives. Time-bound evaluation exercises measure the relevance, efficiency, effectiveness, impact and sustainability of government programmes.

Evaluations may be carried out internally by ministries, departments and agencies, or externally by central ministries, the Auditor-General, the Cabinet, the legislature and so on. There is also space for independent evaluations to be conducted by commissions, civil society organisations, research institutions and development partners. Together these elements form part of a system to improve governance within the public sector.

To create a results-orientated performance culture, many government-wide monitoring and evaluation systems link reporting on the implementation of activities to progress in achieving the desired results. A centrally developed system ensures that standardised terminology, guidelines, benchmarks and reporting requirements are in place, supporting objective evaluations of performance within and across ministries.

There are certain key requirements for a monitoring and evaluation system to work. In determining the degree of sophistication (or simplicity), system design must take into account multiple and sometimes overlapping performance frameworks and data collection systems already in existence, the cost of collecting data versus its usefulness, the extent of decentralised decision-making, and capacity to collect and analyse information at the central and line ministry level.

The interface between central and line ministries in setting indicators and targets is crucial. Indicators and targets at the sector level are the responsibility of accounting officers in the ministries; decisions on the appropriateness of the proposed indicators, the baseline figures, and the feasibility and stretch of the related targets must be a shared responsibility.

It is not so much the information that is crucial, but how this information is used within a ministry, and in dialogue with the finance and/or planning ministry. Proper incentives underpin a credible and participatory process.

Overlapping performance frameworks, onerous reporting requirements and information overload can at times divert resources from service delivery. Central ministries are not the only culprits that breed a compliance culture within governments. While development partners play an important role in external accountability, they can also generate a multiplicity of planning instruments, each one accompanied by its own measurement frameworks. The Public Expenditure and Financial Accountability (PEFA) framework is one example of an external assessment that aims to reduce the reporting burden placed on countries receiving official development assistance.

This chapter begins with a paper by Stanley Simataa and Bolen Khama from the Namibian Ministry of Education, who review the experience of monitoring and evaluation frameworks in the education sector. The second paper, by Mary Betley, a public finance consultant, examines the key lessons from PEFA assessments and how the results have fed into public finance management reform, with specific reference to the Zambian experience.

6.2 We need harmonisation: A sector experience of monitoring and evaluation frameworks

Stanley Simataa & Bolen Khama

6.2.1 Introduction

This paper looks at the reform of Namibia's budgetary and planning processes, and considers the relationship between a number of new instruments and the central monitoring and evaluation framework. It highlights the experience of the education sector to illustrate the impact of these changes and the lessons learnt.

6.2.2 Background

Available resources in Namibia are allocated through the recurrent budget and the development budget. These two budgets are brought together under the medium-term expenditure framework (MTEF). The Ministry of Finance is responsible for the formulation of the fiscal framework, within which funds are allocated for development purposes. The National Planning Commission (NPC) and other institutions such as the Bank of Namibia have inputs into the process of formulating the fiscal framework. Expenditure planning, however, is shared by the Ministry of Finance and the NPC, with the ministry running the recurrent budget process and allocations, and the NPC responsible for the development budget.

Ministries' budgets are organised into a number of programmes. The 'votes' used for the annual budget allocation differ from the programmes used in medium-term expenditure planning documentation, the consolidated MTEF and the medium-term expenditure plans (MTP) of ministries. Annual budget votes and the MTP programmes do not nest perfectly. Some MTP programmes consist of more than one vote, while some votes are absorbed by more than one programme. This conflict causes problems in budget planning – since the MTP is the main instrument to link spending to the sector strategic plan and the National Development Plan (NDP) – and also makes policy performance monitoring difficult.

Each vote is further divided into main divisions and line items. The main divisions are aligned with an economic classification of expenditure. The main line items used are common between votes, with sub-lines only coming into play during execution, when actual spending is recorded against a more detailed chart of accounts.

Table 6.2.1 illustrates how annual budget votes in the education sector translate into MTP programmes.

Since the creation of the initial MTP programme structure, the Ministry of Education has submitted further adjustments to align the programme structure with its sector strategic plan – the Education and Training Strategic Investment Plan (ETSIP). This has involved merging primary and secondary education, and implementation and monitoring. Administration has also been absorbed into the substantive programmes.

6.2.3 Reform of the Namibian system[1]

In 1996 the Cabinet decided to reform the budget process. The reforms were spearheaded by the Office of the Prime Minister and the Ministry of Finance. The reform programme required interlinked improvements to systems at various levels of budget preparation and in different phases of the budget process. The reforms were implemented through a centralised, top-down approach and consisted of three main building blocks:

- The introduction of an MTEF, prepared by the Ministry of Finance.
- The development of the Performance and Effectiveness Management Programme (PEMP), the aim of which was to link development goals with the operational measures for each line ministry.

- The design and implementation of an Integrated Financial Management System to analyse all relevant financial information and support disciplined expenditure across government. It is based at the Ministry of Finance.

MTEFs and MTPs

The MTEF process originally focused on the use of a fiscal framework linked to medium-term macroeconomic and resource projections. In 2003, however, this process expanded to include line ministries, through the introduction of MTPs and a programme structure for line ministries. Subsequently line ministries have been required to request their resources in two phases: in the strategic phase the ministries submit medium-term plans, which include donor funding and its reflection against ministry programmes; in the MTP, line ministries are also required to motivate for their budget request for the third year of the MTP (new each year, since the previous

Table 6.2.1: From annual budget votes to MTP programmes in the education sector

ANNUAL BUDGET VOTE	MTP PROGRAMME
Primary education	Primary education
Secondary to secondary	Secondary education
Hostels to hostels	Hostels
Special education Examinations HIV and AIDS Quality control	Implementation and monitoring
Curriculum and teacher support Policy planning Research and development	Planning and Development
Adult education	Adult education
Library and information services	Library and information services
Vocational education and training	Vocational education and training
Research science and technology	Research science and technology
Higher education	Higher education
National Qualifications Authority	National Qualifications Authority
Human resources development and planning	Human resources development and planning
Administration Office of the Minister Unesco	Administration

two years have rolled over), but are in principle not allowed to request additional resources for the first two years.

For each MTP programme, ministries should set out their objectives and the activities are covered by the programme, along with the priority actions over the medium term. Ministries must indicate in the MTP tables how they intend to use their funds across programmes and across the economic line items of spending, but not within programmes. The final requirements of the MTP are reporting against the PEMP for the past year and a projection of targets.

For the line ministries, the PEMP and MTEF have in principle been fully integrated into the MTPs. These plans form the basis for the annual budget, which is completed in the second financial programming phase of the budget process. In this phase ministries transfer their allocations from their MTP programmes into the votes that make up these programmes for approval by Parliament.

Parliament does not approve the MTPs or the MTEF, but rather the annual budget. While the MTEF, including ministry MTPs, is tabled in Parliament, tracking the correlation between strategic allocations and annual budget allocations is not an easy task.

In principle the MTPs have become the interface between the Ministry of Finance and line ministries. In practice, since the fiscal framework is updated before the tabling of the annual budget, there is still room for negotiation between the Ministry of Finance and spending agencies, with several iterations of ministry ceilings informing the final annual budget forms.

Another aspect of the budget structure that complicates monitoring budgets and evaluating outcomes for stakeholders such as Parliament is that while the system is centralised, implementation is decentralised. The budget books therefore contain an indication of funding flowing to regions, but no indication of how these funds align with the approved votes. In most ministries there are only a few people who understand how the different pieces of the budget puzzle fit together. This can also complicate monitoring within ministries.

The Performance and Effectiveness Management Programme

The PEMP framework was designed to serve as a control and monitoring device that links the operational level with policy design.

With budget and policy reforms there was a shift in focus from the central institutions to the implementation of programme budgeting at the level of line ministries. The MTPs explicitly relate the objectives of each ministry to a set of measurable performance indicators. Once the system of MTPs is in place and fully functional across government, it will be the basis for the allocation of funds by the

Ministry of Finance. The ministry will use the data provided by other ministries on their programmes and their effectiveness, and the PEMP data, as one argument in making allocations. Consequently, ministries will get more funds if they have relevant and effective programmes in place and can demonstrate success.

The PEMP originated in 1998 when government decided to use performance-based measures in public policy implementation. It began as an initiative of the Office of the Prime Minister, but has now broadened to a joint initiative that includes the Ministry of Finance and the NPC. The PEMP underpins the targets set in the NDP and provides steady measures of outcome and impact for strategic decision-making. It also serves as a basis for ministerial targets and supports an accountability framework for senior public servants and the chief executives of parastatals. The PEMP also has the potential to provide day-to-day operational management guidelines.

For each vote, the PEMP framework links the objectives set out in the NDP to the operational level of measurable indicators. Ideally, government wants the expenditure of each ministry to be assessed based on the effect it has on outcomes. Given the priorities set out in the NDP, funds will be allocated according to the importance of the goal and the expected (measurable) effect on PEMP.

The PEMP framework has also been introduced in a top-down approach, but the acceptance of this framework by the line ministries was less enthusiastic than for the MTEF reform. One reason for this may be that the importance of this process and the necessary information were not communicated in time to key people in the line ministries.

If PEMP is to become the basis for policy evaluation, more involvement by the line ministries in the choice and use of indicators may be required, as is illustrated by the experience of the Ministry of Education.

6.2.4 The Ministry of Education experience

The Ministry of Education in Namibia was formed in 2005. Its budget includes most government education expenditure.

The experience of the Ministry of Education provides insights into the challenges that can arise when different stakeholders try to integrate their own distinct needs into manageable, effective frameworks. Tensions can arise between centralised oversight of projects and greater knowledge of the field within the sector.

One tension is the need to ensure policy coherence through centrally designed frameworks that are aligned with national strategy. This requirement, however, can be at odds with spending agency needs where policy coherence can take its own forms, and where better knowledge exists on which indicators are important at a particular time.

Another concern is the need to avoid overloading the centre with myriad indicators that are not clearly related to central policy priorities – or indicators that are not structured in a clear hierarchy (i.e., input, output and process indicators). Sector ministries, however, require comprehensive and detailed frameworks at various levels to ensure that they can be used for the operational management of programmes and spending.

Through its experience with developing monitoring and evaluation frameworks – a process that is continuing – the Ministry of Education has learnt a number of key lessons.

Firstly, a sound set of indicators is only one part of making monitoring and evaluation work. The process of designing the indicators (with participation by programme managers and budget holders) and their use are important aspects of sector management. On the one hand, the indicators used for performance frameworks should be discussed carefully with implementing agencies to ensure that they achieve the right balance between 'feasibility' and 'stretch'. On the other hand, if targets are missed the reaction should not be automatic: rather than cutting funding it should be an opportunity to discuss bottlenecks and their resolution.

Secondly, in developing the Education and Training Sector Improvement Programme (ETSIP) (see box on next page) and performance assessment frameworks for donor funding, the ministry has learnt that multiple frameworks may overlap, which can create a loss of focus and overstretch implementation capacity. It is best to have one framework, preferably owned by the ministry, to which it is prepared to commit all available resources and capacity.

Thirdly, data availability is crucial in the design of monitoring and evaluation frameworks. Both PEMP and earlier frameworks linked to donor support programmes require or required data that is not routinely collected by the Ministry of Education. Compiling reports has as a result involved either a costly ad hoc exercise to collect the data or extrapolation from existing data. Given that the ministry has an extensive education management information system that collects comprehensive information from educational institutions, much effort can be saved by choosing indicators that are already in the database, or for which the data collection can be tagged onto the annual data collection processes.

Fourthly, the frameworks need to be efficient. This means that the cost of collecting the data should not outweigh the benefits derived from having the indicator.

Transformation in the education sector

To provide context for these lessons, it is useful to mention various education sector processes that have occurred since 2000. Overall the sector is in a period of transition

The Education and Training Sector Improvement Programme

The main objective of the ETSIP is clear and attributable: namely to increase the immediate supply of middle-high level skilled labour to meet labour market demands and support national development goals.

The next level of objectives is aligned with key sector concerns of access, equity, quality, efficiency, and HIV and AIDS. The indicators for these objectives are limited and 'SMART' (specific, measurable, attributable, realistic and time-bound), such as the net enrolment ratios in senior secondary, an increased proportion of students entering Grades 5, 8 and 11, significantly reduced dropout rates, a survey of employers that verifies improved skill levels of graduates, and so on.

The ETSIP also has clear, non-overlapping sub-themes with detailed SMART indicators. There are eight programmatic sub-themes combined with a limited number of indicators and a specification of the indicator hierarchy.

The ETSIP framework is driving management of the sector, particularly the use of development partner funds. The monitoring framework is also used between the Ministry of Education, its development partners and other internal funders. It is a negotiated framework with high ministry ownership. The indicators are mostly aligned with existing data sets, and setting up additional limited data collection is under way.

and reform. The restructuring of the two ministries[2] with education responsibilities into one integrated ministry followed a multi-year strategic planning had regarded the ministries as belonging to one sector, and tried to identify links between them.

The planning process saw the gradual refinement of a strategic plan into a comprehensive document linked to long- and medium-term objectives. The final version of the strategic plan, the ETSIP, was developed after intensive consultations over two years with stakeholders inside and outside of the sector. It was based on thorough research on key challenges for education.

The ETSIP is comprehensive, focused, specific, explicit in its strategies and action plans, and time- and resource-bound. It has been thoroughly costed with clear indications of organisational responsibilities and timelines. The document also links to sets of operational and procurement plans. The plan has been approved by Cabinet and tabled in Parliament. It also has a well-developed monitoring and evaluation framework that links into all aspects of the plan at different levels.

On the basis of this document the Ministry of Education has entered into sector-wide arrangements with its key development partners, a process which in turn has generated a common performance assessment framework, drawn from the monitoring and evaluation framework, which contains triggers for funding.

The plan is not only focused on the formulation of new strategies and interventions that will cost additional money. While formulating these strategies, the sector also analysed its current budget allocations. This required budget analysis and projection, and the identification of potential efficiency gains over the medium term, to create space in existing allocations for funding the initiatives. The results of this process are also included in ETSIP.

Significant effort has gone into the reform of sector policies and management through these processes to reduce the hold of 'legacy thinking' in planning and budgeting that focused on line items, needs and funding gaps.

These reforms took place against a backdrop of decentralisation. In keeping with the government's commitment to decentralisation, the Ministry of Education has created education regions, in which education directors are responsible for the planning, budgeting, implementation and outcomes of general education services (as well as adult education and library services). This required a shift from the ministry making decisions on the minutiae of budgets and implementation at the centre, to providing central guidance on the policy contexts of implementation, making allocations, reviewing spending plans and monitoring results. This shift from action to oversight has not yet been completed.

Amid all this change and the 'initiative fatigue' that it has created, monitoring and evaluation has been affected by specific issues. For a couple of years in the early 2000s the education management information system fell behind in collating the results of surveys. This meant that as the ETSIP was being drafted and as the PEMP moved into being a much more direct allocation instrument, the Ministry of Education did not have up-to-date sector information at its fingertips.

In addition, the disjunction between the academic year (from January to December) and the fiscal year (from April to March) always creates planning and budgeting complexity – for example, ensuring sufficient personnel are employed once the new academic year starts, but under an old budget. The results of the school year also cannot be aligned perfectly with spending.

The PEMP in education

The PEMP in education was formulated together with the rest of the PEMP in the late 1990s. It is structured around key objectives drawn from the NDP:

- All children should receive quality education.
- All Namibians should be functionally literate.

- Learners' potential for beneficial participation in the economy and in society should be enhanced.
- Employment should increase.
- A workforce with the competencies to enable the labour market to operate efficiently should be developed.
- Namibia should have well-educated citizens.
- There should be an increased level of value-added research.
- Namibia should contribute to the advancement of scientific knowledge.
- There should be indicators for administration.

These objectives are broken down into 96 indicators. The use of this framework has had both positive and negative results for the funding and management of education.

On the positive side, there is a consistent framework in place that is transparent both to the Ministry of Education and the Ministry of Finance. It is also positive that the PEMP is linked to the NDP. In fact, some of the disconnect between the strategic objectives and indicators of the ETSIP and indicators under PEMP has little to do with the PEMP itself, and more to do with the ETSIP presenting more progress on education strategies than those contained in the NDP.[3] In addition, some of the indicators in the PEMP are SMART indicators and can be used to track performance of the sector in attributable ways.

Several negative factors, however, make it difficult for the ministry to use the PEMP as the core of an integrated, single performance framework. These negatives can be grouped as issues of design, process and implementation; issues regarding the multiplicity of stakeholders, processes and monitoring frameworks; and issues that relate to the underdevelopment of core monitoring and evaluation processes within the ministry itself.

Design, process and implementation

Three factors make it difficult to use the objectives structure for education in the PEMP. Firstly, there is an overlap between the objectives; secondly, the objectives do not capture all the core ministry functions; and thirdly, the relationship between the objectives and the Ministry of Education is not straightforward. Success or failure against some of the indicators cannot be attributed to the ministry alone – and other ministries may carry an equal if not larger responsibility.

Moreover, the objectives and indicators are not aligned with key sector concerns as captured in the sector's own strategic plan, including access to education, the quality of education, equity in the provision of education services and the efficiency of rendering the services.

The indicators themselves are also problematic. There are too many indicators and many of them overlap, making it difficult for sector managers and stakeholders to see clear relationships between activities and performance and to stay focused. Relationships between objectives and indicators are not always clear, nor is it clear in what direction the indicators should move to signal success. For some indicators the PEMP already formulates targets, but it is not clear on what basis these targets have been formulated.

Many of the selected indicators have no clear basis given existing data sources. Given the total number of indicators, it would be an expensive and perhaps impossible task to track all of them on an annual basis. Many indicators can be manipulated and some indicators use absolute instead of relative numbers, with the result that the indicator on its own – without knowledge about changes in the base – will not indicate progress or regression.

In many ways the design concerns about the PEMP framework result from lack of effective consultation with the responsible ministries at the time the framework was formulated. While the Ministry of Finance calls annually for proposed changes to the framework, attempts by the Ministry of Education to bring it into alignment with its sector plans had not met with success by the end of 2006.

Using the PEMP has also proved problematic. While in principle it is a key instrument in the budget allocation process at the centre of government, in practice it has been less effective. For example, the Ministry of Education lacks key data sources and has been unable to provide reliable information. Moreover, some of the indicators would be very difficult and costly to measure. That some of the PEMP indicators are not attributable to the ministry, and that their outcomes are outside of its control, also undermines its usefulness for budget adjustments.

Nor is the framework suitable for the Education Ministry to manage its subsectors. Some of them are not included in the objectives and indicator sets, while others share indicators across several subsectors. The ministry has also been unable to persuade its development partners to use the PEMP as a basis for their performance frameworks linked to the ETSIP, with the result that the ministry is sitting with multiple frameworks, and multiple data collection and reporting processes.

Multiple stakeholders

The education sector absorbs a relatively high percentage of budget and GDP compared to other countries in the region and internationally. Yet if it is to become more effective and efficient, boosting economic growth and job creation, it requires significant external financing.

The education sector has for some years been working with development partners to achieve its objectives. During this period it has had its fair share of aid management problems, including difficult negotiations with donors to ensure that proposed projects align with government priorities, and dealing with the high transaction costs that accompany separate processes and frameworks. A quick listing of instruments brings the point home: the sector has had joint annual reviews, the education sector planning advisory group, and the institutional capacity-building facility and its steering committee, to name a few.

The PEMP has not functioned well as an instrument to reduce transaction costs and integrate dialogue with donors into the Ministry of Education's own budget process, linked to the overall government budget process.

Incomplete systems within the ministry

Using the PEMP, or indeed any monitoring and evaluation framework, would require further development of robust systems within the ministry. The systems used to plan, budget, implement, monitor and evaluate should all be streamlined into one cycle within which roles and responsibilities are clear, where information instruments such as annual reviews or quarterly reports are well defined, where data collection runs smoothly and where processes for using these reports are in place. The policy/budgeting/monitoring cycle should be in place not only between the central management and different programmes (or divisions) but also between the ministry centre (including central management and programme managers) and the regions. While progress has been made in this regard, much work still needs to be done.

The way forward

Performance frameworks and indicators need to align well with the core business of the Ministry of Education and should be agreed with the ministry. If such alignment does not exist, it should either trigger a review of the existing framework, or of ministry functions at a higher level. The ministry already has developed a framework that captures all its activities at a high level of output and outcome, and which is linked directly to an approved strategic plan.

At the time of the November 2006 CABRI seminar, the ministry was urging an alignment between the framework used by the Ministry of Finance (the PEMP) and the ETSIP framework. Only when these instruments are aligned can the resulting comprehensive framework contribute to streamlined, strategic, effective and efficient monitoring and evaluation activities for the education sector.

The development of a new NDP is seen by the ministry as an important opportunity to harmonise the ETSIP and the PEMP. This will hopefully lead to agreement between the Ministries of Education and Finance on PEMP indicators and resolve many of the monitoring and evaluation complexities.

These Ministry of Education monitoring and evaluation priorities are in line with what was presented in the 2005 CABRI paper on budget reform in Namibia by Shafudah, Claassen and Borhnhorst (cited above). In that paper the authors, from the Ministry of Finance, highlighted that reform of the PEMP framework would require:

- feedback from the ministries to make indicators more operational and to adjust them to reality;
- indicators that cut across ministries (such as the unemployment rate) to be made more specific, or the responsibility for addressing them to be clarified;
- a device to monitor and evaluate the accuracy of the figures provided, since the ministries produce their own PEMP data; and
- resolution of general data problems, including a lack of survey data.

6.2.5 Conclusion

In conclusion, there are a number of lessons for monitoring and evaluation institutions at the line ministry level:

- If the principal 'contract' between finance ministries and sector ministries is to work, a mutually agreed upon performance framework is needed. Otherwise, in a decentralised environment, the contract becomes a command sheet.
- Frameworks should be designed carefully, in line with strategic plans, since it is these plans that are being funded.
- A key criterion for design performance is whether the framework is being used by the ministry itself. Only then will it tie policy-making, budgeting and implementation together at all levels of budgeting and have the potential to improve spending efficacy.
- Line ministries understand sector policy issues and performance measurement, and their greater knowledge should be used in the design process.
- Participation and oversight by the centre is important to ensure that the framework has integrity and is feasible in terms of funding and capacity, as well as challenging in terms of policy performance.
- A single framework needs to be agreed on between the centre, line ministry and external funders. The first requirement of this is the integration of activities in the sector towards a single set of strategic goals.

6.3 Lessons from Zambia's public expenditure and financial accountability exercise

Mary Betley

6.3.1 Introduction

This paper reviews the Zambian government's experience with its first Public Expenditure and Financial Accountability (PEFA) exercise, which was intended to establish a baseline for measuring progress in its public financial management (PFM) system against international standards. It provides background on the PEFA programme, reviews Zambia's approach and identifies lessons learnt.

6.3.2 Background

The PEFA initiative is supported by a number of major donors, including the World Bank, the International Monetary Fund, the UK's Department for International Development, and the governments of Switzerland, France, the Netherlands and Sweden. The programme is an important contribution to the development of PFM assessments.

The PEFA programme aims to strengthen public finance reforms. It provides a common source of information for the measurement of PFM performance and progress, and a single platform for dialogue. The PEFA was intended to replace a variety of overlapping assessment tools provided from different donor agencies.

Most of the major multilateral and bilateral donor agencies are committed to harmonising the PEFA assessment because it provides the primary overall review of PFM systems. This will ease the reporting burden on developing countries and help them to set clear benchmarks against which they can assess their own progress and enhance PFM reforms.

One key benefit of a PEFA assessment is that it uses a global, standardised set of high-level indicators to measure the current status of PFM. There are 31 indicators, 28 of which are related to government systems, while 3 refer to donor practices. All phases of PFM are covered, including budget comprehensiveness and transparency, budget formulation, execution, accounting and reporting, and external scrutiny. The focus is mainly on the workings of PFM systems themselves, rather than on budget policy.

The PEFA uses scored indicators (A, B, C, D) rather than statistical values. PEFA can be used for an initial baseline assessment of PFM systems and for monitoring their progress. The PEFA guidelines provide clear criteria for each indicator and emphasise the use of documentary evidence in assessment.

6.3.3 Lessons from the Zambian assessment

Background and methodology

During the second half of 2005, the Zambian government undertook a PEFA assessment of its PFM system. It was originally planned as an external evaluation, but the government asked to take the lead in the exercise. As a result, a government team with staff from the Ministry of Finance and National Planning (MoFNP) and from the Zambia Institute of Chartered Accountants conducted the assessment. A senior official MoFNP official led the team, supported by two external consultants.

The team aimed to build a broad consensus through individual meetings and two stakeholder workshops. The first workshop introduced stakeholders to the purpose, content and methodology of the assessment; the second presented and discussed with senior management the initial results from the baseline evaluation and the implications of these results for the government's reform programme. The main part of the assessment took place in October 2005 and, after comments on a draft, a final report was produced in December of that year. This report was published and is available to the public on the MoFNP's website.

The PEFA was carried out under the government's umbrella Public Expenditure Management and Financial Accountability (PEMFA) reform programme.

Results of the assessment

The assessment found that Zambia's PFM system is centred on a set of budget and accountability structures with a clear legislative framework. These include responsibility and accountability for public funds delegated to individuals through the system; appropriate oversight by the legislature; a clear statement of the powers and duties of the MoFNP and Auditor-General; and clear, well-documented roles and responsibilities for all stakeholders.

In recent years, there has been a greater focus on accountability through the operation of parliamentary committees and the work of the Auditor-General. Budget presentation has been clearer, with the advent of activity-based budgets, and there has been greater Cabinet involvement earlier in the budget process to discuss spending priorities and assign ministry ceilings.

Despite these strengths, effective PFM is challenged by a number of institutional and capacity constraints that can undermine the efficient fulfilment of systems and procedures. Weaknesses exist in the extent of compliance with internal controls both because of inadequate information flows (including poorly integrated databases) and because of capacity constraints. These lead to poor predictability of the budget, which means that the original budget, particularly in line ministries, is not a good indicator of actual expenditure. More strategic budgeting will require significantly improved analytical capacities, particularly in line ministries. It will also require greater budget management capacities.

Measured against the six main PFM principles (see below) examined by the evaluation, it is clear that, while there have been significant improvements in recent years, further reforms will be needed in budget management to achieve better outcomes and deliver more efficient public services:

- *Budget credibility*. There is a high level of variance between budgeted and actual expenditures, particularly when it comes to individual line ministries. While revenues have on aggregate exceeded original budget projections, expenditures have on aggregate diverged to a fair degree from the projections. The differences have been more pronounced among ministries and agencies over the past three years, reflecting the extensive use of redeployments and supplementary budgets across ministries. While new arrears continue to accumulate, the rate of increase has decreased since 2003/2004 with the introduction of a system to control how spending agencies commit funds in the budget execution process. Overall, the stock of arrears has been stable over the past two years, at about 12 per cent of total expenditure. Finally, budget credibility is undermined by weaknesses in budget preparation, particularly by line ministries. While there have been improvements in the budget formulation process in recent years, the development of realistic budgets could be improved.

- *Budget comprehensiveness and transparency*. The budget documents are reasonably transparent, although the comprehensiveness of coverage could be improved. Significant fiscal information is available to the public through the government printer, although in practice, the number of copies printed is limited. The budget is focused only on central government, giving a partial fiscal picture and potentially leading to significant liabilities for central government.
- *Policy-based budget*. The introduction of the medium-term expenditure framework (MTEF) Green Paper (i.e. a pre-budget consultation statement) providing an overall medium-term macro/fiscal resource framework and expenditure policies, and the issuing of Cabinet-approved ceilings at the beginning of the budget preparation process, have been very positive developments. In addition, external finance has been included in the budget and recurrent and capital expenditures have been brought together. Improvements in the use of forward estimates, along with linking bottom-up planning and budgeting with the top-down resource framework, will be required to make the budget an effective policy tool.
- *Predictability and control in budget execution*. The implementation of a commitment control system during the past two years has improved budgetary discipline. However, effective expenditure controls are potentially undermined by:
  - inaccurate and outdated information (for example, a lack of comprehensive information on staff numbers can result in ghost workers);
  - retroactive adjustments in expenditures (ex-post regularisation, or the process of regularising previously unauthorised expenditures, including additional in-year expenditures for individual budget heads above their original budgeted amounts) indicates weaknesses in expenditure control;
  - weak links between commitment ceilings and cash-flow projections/ monitoring and lack of communication of in-year expenditure authorisation (monthly or quarterly commitment ceilings) to line ministries; and

  - capacity constraints, particularly with accounting and budget analysis, which can lead to inaccurate accounting and reporting and ineffective accountability mechanisms in some areas, potentially leading to breaches in controls.
- *Accounting, recording and reporting*. While there have been improvements in the efficiency of accounting, capacity constraints and weaknesses in the accuracy and availability of financial information are hindering the effectiveness of financial management. Specific weaknesses include fragmentation in databases (for example, payroll management), and manual and paper-based elements of some systems, resulting in the lack of real-time information for MoFNP and line ministry oversight.
- *External scrutiny and audit*. External oversight has improved through the more timely preparation and submission of Auditor-General reports to Parliament and the clearance of the backlog of outstanding reports. Parliament has taken a more active role in scrutinising the budget. However, the effectiveness of follow-up by the executive is unclear.

Key lessons from the assessment process

The Zambian PEFA exercise was unusual in that it was one of the few out of the more than 60 undertaken worldwide since the final PEFA guidelines were issued in June 2005 that was led by a Zambian team. The government's positive leadership and support for the exercise were crucial to providing a strong focus on the analysis of PFM strengths and weaknesses. As will be discussed in the next section, however, this is insufficient for identifying the required steps for addressing these weaknesses.

In addition, the transparent methodology and the guidelines underpinning the PEFA assessment instrument, with its strong focus on supporting documentary evidence, helped to reduce the subjectivity of the analysis, improved the credibility of the exercise and encouraged the co-operation of stakeholders.

6.3.4 The PEFA and public finance reform in Zambia

As indicated above, the PEFA framework is now part of the monitoring and evaluation framework for the government's reform of the public finances, the PEMFA. Monitoring and evaluation will include annual reviews of the PEMFA. The indicators developed under the PEFA initiative will be used in these annual evaluations, and the first annual evaluation (2005) will be used to set a baseline for these indicators and develop the indicator framework.

In this way, the PEFA assessment has had some important positive effects on the PFM reform programme. The assessment was also reported to have had an impact in the setting of annual work plans that inform the direction of reforms in component areas. However, as the annual work plans are very detailed and focus on inputs, this assertion is difficult to verify.

At the beginning of 2007, the government and donors agreed that the annual Performance Assessment Framework – a joint initiative between the state and development partners – would explicitly look at progress towards PEFA indicators. The 2007 Performance Assessment Framework matrix (and draft 2008 matrix) include a column for the related PEFA indicators for each component and sub-component. In the future, progress reports will cover PEFA indicators, whereas up until now they have tended to highlight weak areas without being linked specifically to PEFA indicators.

In terms of prioritising and sequencing across PEMFA reform areas, it appears that the PEFA has had less of an impact, with the broad reform components themselves unchanged. Despite discussion of a separate exercise of making recommendations for prioritising and sequencing reforms, such an exercise effectively did not take place. There are also areas of PFM reform taking place outside the PEMFA programme, specifically in terms of cash management and the introduction of a single treasury account. These are issues highlighted as important by the Secretary of the Treasury. It is not clear to what extent the PEFA assessment guides PFM reform processes outside of the PEMFA programme.

This dichotomy between the role of the PEFA in the designated PEMFA programme and wider PFM reform is not surprising. As a diagnostic, PEFA assessments can be seen as an input in designing a new or next phase of PFM reforms; refocusing an existing PFM reform programme (such as comparing actual weaknesses against those addressed by the reform to see if they match); and monitoring progress of reforms over time.

While the PEFA can help identify system strengths and weaknesses, there are a number of reasons why it is limited in helping to put together a reform strategy. Firstly, it does not indicate the underlying reasons for these weaknesses in systems, nor identify the solutions. Secondly, the PEFA does not indicate what the government's priorities are – in a fiscal crisis, the priorities may be very different to the norm. Thirdly, the PEFA does not indicate appropriate sequencing of different reform measures. Some things may take changes in legislation or actions by agencies other than the finance ministry, or information required or exchanged between agencies, to carry out reforms. Finally, the PEFA does not take into account absorptive capacity for reform, particularly in a situation where officials have become fatigued by constant reform, leading to a tension between the needs of officials' day-to-day operational responsibilities and the work required for reform.

6.3.5 Conclusion

In Zambia, strong government ownership of the PEFA exercise, combined with an explicit incorporation into the monitoring framework for the PFM reform programme, helped create the conditions for a credible baseline assessment of PFM. This has been used by managers to bring about a closer alignment between the PEMFA programme and the PFM strengths and weaknesses identified in the PEFA assessment. This is an important achievement. To date, however, this realignment has been concentrated at the sub-component level, and has not yet led to a more sequenced and prioritised reform programme that takes into account national priorities across the government.

The PEFA baseline assessment is only the first step in providing a stronger guidance role for PFM reform as a whole. Senior management must look at government's overall priorities more strategically, addressing appropriate sequencing issues, and taking into account realistic institutional and absorptive capacities. Such an approach would provide the necessary foundation on which future progress could be measured by PEFA indicators.

Endnotes to Chapter 6

1 This section draws on the paper by Shafudah E, Claassen C & Borhnhorst F (2005) Namibia: Successful Fiscal Policy Through Medium Term Planning in *CABRI 2004 Budget Reform Seminar: Country Case Studies* (2004).

2 The Ministry of Education was formed in 2005 after the Ministry of Basic Education, Sport and Culture and the Ministry of Higher Education and Youth Development were restructured.

3 When the ETSIP was established, the NDP was in its final year of implementation, having been formulated in 2001.